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NOMINATIONS OF JIM E. TARRO, ARTHUR J. HILL, CECIL B. THOMPSON, AND GEORGE H. PFAU, JR.

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

ON THE

NOMINATIONS OF

JIM E. TARRO, OF NEW MEXICO, TO BE THE ASSISTANT SECRETARY OF ADMINISTRATION AT THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ARTHUR J. HILL, OF FLORIDA, TO BE THE ASSISTANT SECRETARY OF HOUSING AT THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CECIL B. THOMPSON, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK

GEORGE H. PFAU, JR., OF CALIFORNIA, TO BE A DIRECTOR OF THE SECURITIES INVESTOR PROTECTION CORPORATION

FEBRUARY 8, 1991

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CONTENTS

FRIDAY, FEBRUARY 8, 1991

Page
- Opening statement of Chairman Riegle ... 1
- Opening statements of:
  - Senator Jeff Bingaman ... 2
  - Senator Pete Domenici ... 2
  - Senator John Warner ... 3
    - Complete prepared statement ... 5
  - Senator Charles Robb ... 8
  - Senator Connie Mack ... 8
  - Senator John Heinz ... 18
  - Senator Alfonse D'Amato ... 18
  - Senator Bob Graham ... 19

NOMINEES

- Jim E. Tarro, of New Mexico, to be the Assistant Secretary of Administration at the Department of Housing and Urban Development ... 9
  - Prepared statement ... 12
  - Response to written questions of Senator Sasser ... 53
  - Biographical sketch ... 74
- Arthur J. Hill, of Florida, to be the Assistant Secretary of Housing at the Department of Housing and Urban Development ... 20
  - Prepared statement ... 23
  - Response to written questions of:
    - Senator Sasser ... 57
    - Senator Roth ... 62
    - Biographical sketch ... 82
- Cecil B. Thompson, of Virginia, to be a member of the Board of Directors of the Export-Import Bank ... 32
  - Prepared statement ... 34
  - Response to written questions of:
    - Senator Riegle ... 64
    - Senator Sasser ... 71
    - Biographical sketch ... 90
- George H. Pfau, Jr., of California, to be a Director of the Securities Investor Protection Corporation ... 47
  - Response to written questions of Senator Sanford ... 72
  - Biographical sketch ... 100

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

- Forbes magazine article dated Feb. 18, 1991 entitled "How solid is SPIC?" by Michael Fritz ... 107

NOMINATIONS OF JIM E. TARRO, OF NEW MEXICO, TO BE THE ASSISTANT SECRETARY OF ADMINISTRATION AT THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; ARTHUR J. HILL, OF FLORIDA, TO BE THE ASSISTANT SECRETARY OF HOUSING AT THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; CECIL B. THOMPSON, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK; GEORGE H. PFAU, JR., OF CALIFORNIA, TO BE A DIRECTOR OF THE SECURITIES INVESTOR PROTECTION CORPORATION

FRIDAY, FEBRUARY 8, 1991

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10:05 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Donald W. Riegle Jr. (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN RIEGLE

The CHAIRMAN. The meeting will come to order. Let me welcome all who are in attendance this morning.

Today we are meeting to consider Presidential nominations for four important posts in the Government.

Mr. Jim Tarro has been nominated for the post of Assistant Secretary of Administration at the Department of Housing and Urban Development.

Mr. Arthur J. Hill, who is the nominee to be the Assistant Secretary of Housing and Federal Housing Commissioner in the Department of Housing and Urban Development.

Mr. Cecil Thompson, who has been nominated to be a member of the Board of Directors of the Export-Import Bank.

And Mr. George Pfau, the nominee to be a public director of the Securities Investor Protection Corporation.

Let me welcome all of you and we'll take you in order as we go through this morning. I am going to start by yielding shortly to my colleague, Senator Domenici, who has asked to introduce Mr. Tarro.

I want to say that Senator Bingaman as well had hoped to be here this morning, but is unable to do so and wanted me to submit his statement for the record.

STATEMENT OF SENATOR JEFF BINGAMAN

Senator BINGAMAN. Mr. Chairman, I regret that I cannot attend this morning's hearing, but I am pleased to support the nomination of Jim Tarro to be Assistant Secretary of Housing and Urban Development.

As you know, Mr. Tarro is a very successful manager with a record of achievement in private business, civic affairs and Government service. He has distinguished himself in his profession, and will, I am sure, do excellent work in this new job.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Domenici has just joined this committee and we're delighted to have him and we are interested in hearing what he has to say about you this morning.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Thank you, Mr. Chairman. I really appreciate your giving me a few moments. This is a day you want to get some work done and get down to work and I am sure you have many things to do during this recess and I am not going to take a lot of your time or the committee's.

First, let me say I am pleased to be on the committee. I am not a new Senator, but a new member. This is going to be almost a new year I think with all the difficulties we have.

My job today is, indeed, an easy one because I, not only, am introducing Jim Tarro, the President's nominee to be Assistant Secretary of HUD. But I strongly urge and recommend that the committee approve him quickly and that the Senate confirm him quickly.

I have known him for a long time. I am convinced that he is going to bring the same level of enthusiasm and commitment to HUD that he had shown us back in Albuquerque, NM, and in the Department of Energy. For instance, Mr. Chairman, while in New Mexico serving as an engineer and manager for Digital Equipment, he was voted the National Hispanic Engineer of the Year. You know, and I have heard you speak to it, Mr. Chairman, of the very high need for more of our minorities to get into fields of math, science, physics, engineering. Well, we have a very qualified Hispanic engineer.

But he went beyond that and assumed a management role for Digital. They are a very major company in America, with magnificent management skills. We sought him out for the President to go help out in the Department of Energy. He did that and did it, from what I understand, in Human Resource Management there, he did it in an exemplary manner.

And now Secretary Kemp has asked the President to move him over to HUD and we urge that and he is here today because the President has now nominated him to go to that Department to become the Assistant Secretary of HUD. And we are very pleased, because we think he will add some real management and administrative oversight and will carry with it the qualities of concern for minorities that he has always had, and the professional qualities that he has always practiced.

So I am pleased to introduce him and strongly recommend him. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Domenici.

All Members of the Senate give great weight to your opinions and observations, and certainly I do. And the fact that you have this kind of personal knowledge and feel so strongly about it, I think, is a wonderful statement of support for the nominee and a very meaningful one.

I have noticed that we have had our colleague John Warner come in. I think other colleagues will be arriving. So what I may do, rather than proceed with you right now, Mr. Tarro, in the interest of allowing colleagues to make any comments they wish to as they can, I am going to invite Senator Warner to come on down to the table and invite you, Senator Warner——

Senator WARNER. Introduce Mr. Thompson.

The CHAIRMAN. Yes, if you would.

OPENING STATEMENT OF SENATOR JOHN WARNER

Senator WARNER. Thank you, Mr. Chairman and members of the committee. I appreciate very much the courtesy that the chair and this committee attends to this Senator as well as others. This committee has a reputation for courtesy and sometimes that leads to events which we can't always predict, right, Mr. Chairman?

The CHAIRMAN. That's exactly right.

Senator WARNER. Mr. Chairman and members of the committee, I am pleased to introduce Mr. Cecil B. Thompson, who has been nominated to be a director of the Export-Import Bank of the United States.

It is my privilege to recommend him unequivocally. He is a long-time friend and associate of my brother's, who is now serving overseas in another post. But my brother brought this outstanding individual to my attention.

Mr. Thompson is a long-time resident of my State, Virginia. He has enjoyed a varied and extensive career. He is currently president of the Cygnus Corp., a technical assistance program management organization. Cygnus manages programs involving the provision of highly specialized technical assistance services, primarily to foreign governments and organizations seeking technology from U.S. education, research, and related institutions.

Prior to that, he spent several years overseas in Saudi Arabia, managing a bilateral solar energy technology research and development program. He also served in senior management positions with the Department of Energy and the Federal Energy Administration.

Mr. Thompson's familiarity with the business and economic sector is clearly illustrated by his strong background in the financial sector. He graduated from UCLA with an undergraduate as well as a master's degree in economics. He served as an associate professor of economics at California State University at Fullerton. He also served as an economist and strategic systems analyst at the Center for Naval Analysis. He is a member of the American Economics Association, a trustee of the Woods Hole Oceanographic Institution.

Cecil Thompson will make a great contribution to the board of the Export-Import Bank and I enthusiastically endorse his nomination.

I thank the chair and the members of the committee for giving me this courtesy.

[The complete prepared statement of Senator John Warner follows:]

JOHN WARNER
VIRGINIA

COMMITTEES
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SELECT COMMITTEE ON INTELLIGENCE
ENVIRONMENT AND PUBLIC WORKS
SPECIAL COMMITTEE ON AGING

John Warner
United States Senate

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STATEMENT OF SENATOR JOHN WARNER
BEFORE THE SENATE BANKING COMMITTEE
ON THE NOMINATION OF
CECIL B. THOMPSON AS DIRECTOR
OF THE EXPORT-IMPORT BANK OF THE UNITED STATES
FEBRUARY 8, 1991

Mr. Chairman and members of the Committee, I am pleased to introduce Mr. Cecil B. Thompson, who has been nominated to be a director of the Export-Import Bank of the United States. It is my privilege to recommend Mr. Thompson to the President.

Mr. Thompson, a longtime resident of Virginia, has enjoyed a varied and extensive career. He is currently president of the CYGNUS Corporation, a technical assistance program management organization. CYNGUS manages programs involving the provision of highly specialized technical assistance services primarily to foreign governments and organizations seeking technology from U.S. educational, research, and related institutions.

Prior to that, Cecil spent several years overseas in Saudi Arabia managing a bilateral solar energy technology research and development program. He also served in senior management positions with the Department of Energy and the Federal Energy Administration.

Mr. Thompson's familiarity with the business and economic sector is further illustrated by his strong background in the financial sector. He graduated from UCLA with an undergraduate as well as a masters degree in economics. He served as an associate professor of economics at California State University at Fullerton. He also served as an economist and strategic systems analyst at the Center for Naval Analyses. He is a member of the American Economics Association and a trustee of the Woods Hole Oceanographic Institution.

Cecil Thompson will make a great contribution to the Board of the Export-Import Bank, and I enthusiastically endorse his nomination.

Thank you Mr. Chairman and members of the Committee for your attention to this matter.

The CHAIRMAN. Thank you very much, Senator Warner. That is a strong endorsement and an important one and we are happy to have it.

I think as well, Senator Robb may well also be intending to come by today and, if not, will certainly express his support as well.

Senator WARNER. Thank you Mr. Chairman.

The CHAIRMAN. Let me excuse you now, because I know—we'll let Senator Warner go back to the war zone.

Let me make a few comments about Mr. Tarro here and begin by welcoming you and congratulating you on your nomination. It's obviously a mark of distinction to have been selected and nominated for this post.

The Assistant Secretary for Administration is responsible for organization and management of information systems, personnel management, budget and financial administration, and general administration. This role is clearly vital to HUD, as it is struggling now to overcome what we now know to be years of mismanagement problems and even corruption problems.

The Department must establish and maintain sound management systems and controls to clear away any question about past practices and to ensure that HUD moves forward with what is clearly an important mission for the country.

During the last Congress, we passed the HUD Reform Act to improve the controls at HUD and to provide the tools for sound management. We also passed the Cranston-Gonzalez National Affordable Housing Act in an effort to make a decent and affordable home in a suitable environment a reality for millions of low-income Americans.

Obviously, our legislative efforts in that sphere have to be complimented and enforced by sound management and administration at the Department if we are actually going to achieve those goals. So clearly the challenge of improving HUD's internal management and the administrative capacity is a vital task and one that very much has the spotlight on it.

And you do, indeed, bring a wealth of professional management and administrative experience to this task, and that is encouraging to me and to the committee. So we very much look forward to hearing your testimony this morning.

Let me now ask you to stand and raise your hand. I am going to administer the oath to you.

[Witness sworn.]

The CHAIRMAN. Very good. I don't know if you have anybody who accompanies you in your family that you want to introduce to us. If so, feel free to do that and we welcome any opening statement that you want to make to us.

Mr. TARRO. There are two groups I would like to introduce. One of them is my immediate office staff and, also in the back of the room, we have the American Hispanic Contingency.

This is a very big day for American Hispanics.

Before opening——

The CHAIRMAN. If I may, without disrespect to you, I'm just going to do this today in the interest of trying to accommodate Senators that are coming and going and that need to make endorsement comments such as you received from Senator Domenici.

Let me just ask you to suspend for a minute.

Senator Robb has joined us. Senator Warner—why don't you come out and just take a seat here. Senator Warner just was here and spoke about Mr. Thompson and indicated that he thought you were on the way as well. So let me invite you now to make whatever comments you wish to make.

OPENING STATEMENT OF SENATOR CHARLES S. ROBB

Senator Robb. Thank you, Mr. Chairman.

I confess to mixed signals. I started over for the 10 o'clock meeting and I was called and told that you weren't going to go until later, so I went back. I did see Senator Warner en route and I kidded him about the mixup because we had been in two meetings earlier today.

I am delighted to appear very briefly. I don't know specifically what Senator Warner said about Mr. Thompson. I am delighted to be able to appear and to formally present him to the committee on his behalf and urge his confirmation.

We have a number of common areas. Our children have crossed paths. We have had several areas, over the years, that we have had common ground. He has had an extraordinary variety of service. I am sure Senator Warner reviewed some of that for you, so I will not review that individually.

I'm just very pleased that I'm able to appear on behalf of a neighbor, someone who has been very active in the community over the years that he has lived here. He has lived in other parts of the country over the years, has an extraordinary breadth of background in terms of a variety in terms of different career and political interests in addition to the Ex-Im Bank. But I think he will make a superb director.

And, Mr. Chairman, given the fact that you have already proceeded here, I apologize for the mixup and I am very pleased to formally introduce and recommend for confirmation Mr. Thompson as a director of Ex-Im Bank.

The Chairman. We're delighted to have you come and do that. I always think it is significant when we have two Senators who represent the two different parties holding the same high regard for a nominee. I think it is a special credit to that particular nominee. And we've also got that in the case of Mr. Tarro.

We appreciate your comments and I'll let you be excused and go on to other tasks that I'm sure you have this morning.

Senator Robb. Thank you, Mr. Chairman.

The Chairman. Thank you, Senator Robb.

Before we start, I have a statement from Senator Mack to be inserted in the record.

STATEMENT OF SENATOR CONNIE MACK

Senator Mack. It is my pleasure to give my strong support to Art Hill for his confirmation as Assistant Secretary of Housing and Urban Development at the U.S. Department of Housing and Urban Development [HUD]. Art is highly qualified for this position.

Art comes to HUD after serving as president of the Government National Mortgage Association [GNMA]. Before coming to Washington, he was president, chairman and chief executive officer of the Peoples National Bank of Commerce in Miami. In these capacities, Art's executive and leadership skills were clear to all those who knew him. His extensive financial background and years of experience make him an excellent candidate for the position of Assistant Secretary of Housing.

Art was born in Jacksonville, FL, and has contributed to our State over the years. He is a member of numerous community organizations where he has contributed his time and his talents very generously.

Art's extensive experience in the field of finance and housing and his strong commitment to his community will bring to Secretary Kemp's team of professionals a valued asset. He is precisely the type of individual that will provide the strong leadership needed to assist the Secretary in implementing recently passed reform of the Federal Housing Administration [FHA]. It is critical that an individual of integrity and intelligence lead the FHA back to financial soundness so that Americans may continue to have greater access to first time homeownership.

I would urge my colleagues to swiftly pass Art Hill's confirmation as Assistant Secretary of Housing.

The CHAIRMAN. Mr. Tarro, I appreciate your willingness to be interrupted there so we could handle that matter. But we would like to hear from you now.

STATEMENT OF JIM E. TARRO, OF NEW MEXICO, TO BE THE ASSISTANT SECRETARY OF ADMINISTRATION AT THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. TARRO. I wanted to just thank Senator Domenici for introducing me at the end; I thought it was very nice, Mr. Chairman, members of the committee.

It is an honor to appear before you as President Bush's nominee to serve for Assistant Secretary for Administration at HUD. I feel equally honored for the opportunity to work with Secretary Kemp and his outstanding management team.

I am totally committed to the Secretary's initiatives and his passion for providing a "hand up" to Americans who are at the bottom of the socioeconomic structure of our society.

As a first-generation Hispanic in this wonderful Nation of the United States of America, I truly understand the difference a "hand up" can make, for I come from the very bottom of that structure.

The Kemp team has taken on an awesome task to correct the many problems and results of abuse and mismanagement at HUD as you just mentioned a few minutes ago. Great strides of improvement have been made under the continuing leadership of Secretary Kemp, but much yet remains to be done.

I should add, Mr. Chairman, although I am a newcomer to HUD, I am well aware of the contribution this committee has made to helping accomplish the needed reforms at HUD. Certainly the cornerstone of that effort was the passage of the HUD Reform Act in 1989. In addition, the subcommittee created by you, Mr. Chairman, to investigate abuses and mismanagement at HUD helped the Department further correct and explore the systemic flaws of its programs and management practices.

Secretary Kemp considers the recently published report of the subcommittee, presented by Chairman Graham and Senator Mack as a valuable tool to helping the Department make reform a continuing as well as a sustaining HUD effort.

In assessing the mission of the Assistant Secretary for Administration in helping to accomplish the Secretary's management goals over the next 2 years, I have asked myself, what can I do to make a contribution, perhaps even a difference. My answer to this question is to inculcate a management culture that practices not only efficiency but focuses on being effective.

I have spent nearly three decades in business management and have developed broad perspectives on the challenges to operate an agency with the size and the scope of HUD. I will bring all of my skills and experiences to the HUD management table to institutionalize the Secretary's passion for performance excellence with the ultimate goal of providing satisfaction for the HUD customer.

Within HUD, I will further advance the Secretary's management reforms by institutionalizing strategic planning to minimize waste of resources. I will supply the administrative support for enforcing internal controls instituted by the Kemp team to seek out root causes of problems rather than focusing on symptomatic organizational behaviors.

I will further align the Department's ADP systems to make planning, budgeting, and monitoring more effective so as to redeploy scarce resources to higher priority tasks. And, last, I will implement work measurement analyses to accurately determine what is being done, where it is being done, why it is being done, and by whom.

This latter effort will be a chore of separating the wheat from the chaff so that HUD can responsibly assign work to its employees and determine the best use of budget dollars for improving job skills and developing long-term hiring plans.

In conclusion, administration and management are disciplines in which I am well experienced. I have strong financial management skills, I am technically competent with automated systems management, I have a strong background in personnel work, I have years of experience with facilities administration, and procurement and contracts management have been at the core of business efforts in my manufacturing background.

Furthermore, my previous work experience as the Director of Administration and Human Resource Management and Principal Deputy Assistant Secretary for Management and Administration at the U.S. Department of Energy has well oriented me to the distinctive features of the public sector and the unique responsibilities public servants have to their constituents and beneficiaries.

In closing, I wish to restate that I am truly honored that President Bush has nominated me for this position and grateful that Secretary Kemp has asked me to be part of an outstanding management team.

That concludes my remarks, Mr. Chairman. I look forward to working with you and the committee in improving the management of HUD's administrative functions to ensure that HUD fulfills its mission of promoting the goals of homeownership, fair housing, economic growth, jobs and opportunities.

I will be happy to answer any questions.

[The complete prepared statement of Jim E. Tarro follows:]

STATEMENT OF JIM E. TARRO
ASSISTANT SECRETARY - DESIGNATE FOR ADMINISTRATION
BEFORE THE
SENATE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS

FEBRUARY 8, 1991

Mr. Chairman and members of the Committee, it is an honor to appear before you as President Bush's nominee to serve as Assistant Secretary for Administration at HUD. I feely equally honored for the opportunity to work with Secretary Kemp and his outstanding management team. I am totally committed to the Secretary's initiatives and passion for providing a "hand up" to Americans who are at the bottom of the socio-economic structure of our society. As a first generation Hispanic in this wonderful nation of the United States of America I truly understand the difference a "hand up" can make, for I came from the very bottom of the ladder.

The Kemp team has taken on an awesome task to correct the many problems and results of abuse and mismanagement at HUD. Great strides of improvement have been made and under the continuing leadership of Secretary Kemp, much yet remains to be done.

I should add, Mr. Chairman, that although I'm a newcomer to HUD, I am well aware of the contribution this Committee has made to helping accomplish the needed reforms at HUD. Certainly the cornerstone of that effort was the passage of the HUD Reform Act in 1989. In addition, the subcommittee created by you, Mr. Chairman, to investigate abuses and mismanagement at HUD helped the Department further explore and correct the systemic flaws of its programs and management practices. Secretary Kemp considers the recently published report of the subcommittee, presented by Chairman Graham and Senator Mack, as a valuable tool to helping the Department make "reform" a continuing, as well as sustaining, HUD effort.

In assessing the mission of the Assistant Secretary for Administration in helping to accomplish the Secretary's management goals over the next two years, I've asked myself: "What can I do to make a contribution?--perhaps even a difference?" My answer to this question is to inculcate a management culture that practices not only efficiency but focuses on being effective. I've spent nearly three decades in business management and have developed broad perspective on the challenges of operating an agency with the size and scope of HUD. I will bring all of my skills and experiences to the HUD management table to institutionalize the Secretary's passion for performance excellence with the ultimate goal of providing satisfaction for the HUD customer.

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In conclusion, administration and management are disciplines in which I'm well experienced. I have strong financial management skills; I'm technically competent with automated systems management; I have a strong background in personnel work; I have years of experience with facilities administration; and procurement and contracts management have been at the core of business efforts in my manufacturing background. Furthermore, my years of work experience as the Director of Administration and Human Resource Management and Principal Deputy Assistant Secretary for Management and Administration at the U.S. Department of Energy has well oriented me to the distinctive features of the public sector and the unique responsibilities public servants have to their constituents and beneficiaries.

In closing, I wish to restate that I am truly honored that President Bush has nominated me for this position and grateful that Secretary Kemp asked me to be part of an outstanding management team. This concludes my remarks Mr. Chairman. I look forward to working with you and the Committee to continue to improve the management of HUD's administrative functions and insure that HUD fulfills its mission of promoting the goals of homeownership, fair housing, economic growth, jobs and opportunity. I'll be happy to answer any questions.

The CHAIRMAN. I will have some questions for you in a moment. Let me ask Senator Heinz if he has any comments or questions.

Senator HEINZ. No, thank you, Mr. Chairman.

The CHAIRMAN. Tell me a little bit—I am always interested in people who make a serious, essentially a lifetime professional commitment to public service, come up through the ranks and take on one task after the other.

I am interested in knowing just your personal family background. Can you tell me where you were born and raised and some of your early family history and what got you going in the direction of public service?

Mr. TARRO. Senator Shelby asked me about that. It's interesting how one can end up in life.

I was born in east Los Angeles, in Boyle Heights. I say BH and people think Beverly Hills, but Boyle Heights is a very different neighborhood in Los Angeles.

I also lived in other places in the east and south LA areas. When I was a little boy, you might say I was a bit wayward. There was a Sergeant Kelly on the LA police force who formed an organization for wayward kids in the east LA area, an organization called DAPB, the Deputy Auxiliary Police Band.

I was a trumpet player and I played a solo for President Eisenhower in the Hollywood Bowl and learned about Presidents. I was very curious. I had a dream all my life to do something very significant in Washington. This is a dream come true.

The CHAIRMAN. I'm sure your family is as proud of you as you are of them, too, for the fact that you've come along. I know from stories that circulate at the Harvard Business School that there were times when Senator Heinz was a wayward student at the Harvard Business School. [Laughter.]

And look how well he's turned out. [Laughter.]

That might also be said for me.

So I think it's great that you've come forward now in a set of professional steps through your lifetime and taken on larger and larger duties.

Senator HEINZ. Mr. Chairman, if I might respond.

The CHAIRMAN. I thought so. [Laughter.]

Senator HEINZ. It is not clear whether anybody from the Harvard Business School has gone anywhere but down. [Laughter.]

The CHAIRMAN. That's sort of an inhouse joke here.

Senator HEINZ. And for others, who didn't get into politics and got into finance, it's a big house joke. [Laughter.]

The CHAIRMAN. That's true.

Senator HEINZ. We need to warm this audience up. [Laughter.] They are not Harvard Business School graduates and I've found that advantageous.

The CHAIRMAN. I think, looking at the HUD situation and the leadership that Secretary Kemp is giving there and the problems of the past that you made some reference to, there are very few agencies in Government that are as relevant to people across the country, in Los Angeles, at the grassroots or Detroit at the grassroots, than this Department. This Department can really make a difference in sort of lifting the living conditions of people who really need our recognition and our response.

I think there are some areas of the Government where that is quite remote. This is an area where it's very immediate and very direct and it's a chance to really make a positive difference in the lives of people.

Can you give me some sense of your familiarity with HUD programs and your housing related experience prior to your appointment as the special advisor to the Secretary last December?

Mr. TARRO. My experience with the housing industry is not technical, such as people who have run housing programs. Certainly, my experience is grass roots. I grew up in poor neighborhoods. I grew up before they had these housing programs, before they had wars on poverty, before, when multifamilies lived in one single room or one single house that might be no larger than 900 square feet.

My housing experience is personal in terms of rural workers and their lack of decent housing conditions. Then there are these people who live along the borders of Mexico in the colonias, without facilities or services. Again, housing issues for me are very personal, not technical by profession. What we're dealing with is programs for people who need a "hand up," who need to get ahead and contribute, to be empowered.

So it is not a technical housing background that I bring to HUD. I'm a manager, a business administrator, a financial person. I'm here to look at the administrative end of HUD's business, to make sure that the various programs in housing don't get abused, and that the deliverable goods get delivered to the user and not middle people who would take unfair advantage of these programs.

The CHAIRMAN. I think there is a general perception that during the 1980's, HUD suffered a loss of a large number of employees who possess significant experience and technical expertise. There was a core of people of that sort who moved on.

Testimony before the Senate HUD/Mod Rehab Investigations Subcommittee as well as reports by the HUD inspector general, the GAO and HUD's regional administrators suggest that there are strong indications that HUD still faces serious problems with its staffing and capacity. And the Investigations Subcommittee concluded that staffing capacity plays a key role in preventing fraud, abuse, and mismanagement.

Related to that, one of the studies by the inspector general indicated that major staff inadequacies and poor training and things related to that had contributed to an inability to monitor the programs properly and, in turn, had helped cause or create or allow some substantial financial losses to take place. So it wasn't just a case of poor administration that hurt people that might otherwise be benefited by programs, but money in substantial amounts was lost along the way at the same time.

I am just wondering, you have had some time to think about this. What steps do you see as being needed or do you intend to take? Or what tools may be needed to really move in on this and make sure that we're correcting this?

Mr. TARRO. The past is certainly one of the most important issues that we have to analyze. Coming from the manufacturing business, it was a question we would deal with every day. Do we have the capacity to do this, the capacity to do that? The answer was always a qualified yes. We had people, space, and machines. However, people had to be trained or retrained and machines had to be tooled. This always required a rampup over time. As it is in the manufacturing business, it is at HUD.

We have the capacity but capacity is something that is grown a little more every day. There was a large brain drain during the 1980's and you might say, as in manufacturing, that we're retooling to do a new job. Day by day we have to reskill in HUD, day by day. Capacity isn't an instantaneous step function.

There's a large focus on training, development, redeployment, and realigning our systems so that the resources we have can be used more effectively. It's a problem we recognize. Not only have I thought about it, a large number of us have thought about it. A major focus of our energy is on the skills of our people and is a top priority with us.

The CHAIRMAN. There have been reports of discrimination problems within the Department and people not getting equal treatment with respect to issues of staff promotion, performance appraisals, the whole question of upward mobility. You are here, in a sense, as a representative of upward mobility. I am wondering if you have a sense as to what has been done to try to deal with these allegations.

Is there something to them? How do you view them? And I am wondering what affirmative steps you may be planning to take to make sure that people are really on a level playing field in terms of their chances for advancement within the agency and that there is no tilt one way or the other.

Mr. TARRO. First of all, let me say this about upward mobility and accusations of discrimination. Secretary Kemp and I feel very strongly about doing the right thing in this area. When I deal with these kinds of issues, I deal with the facts as well as my sense and views. What I have looked at is the numbers. And the numbers indeed show that there is an inadequacy in this area.

The CHAIRMAN. An inadequacy?

Mr. TARRO. An inadequacy. Indeed, improvement is required.

I have already met with a number of people in our FHEO [Fair Housing and Equal Opportunity] organization to see what steps are being taken. I am personally involved to see that we are going to take some affirmative steps deep down, doing things that are creative in terms of upward mobility and recruitment that are creative and that reach all across this country.

So this is something that is also foremost in my mind.

The CHAIRMAN. I am pleased to hear you say that. That is an important answer and we want to keep track of what takes place there and how things perhaps start to look differently as time goes on here.

One thing that I have asked every HUD nominee before this committee is to make a personal commitment to us here in this setting that if, at any time, you encounter any indication of fraud or abuse or political favoritism or any tilting within the agency that you know shouldn't be there, that you are going to report that promptly, without any fear or favor or what have you. And I would like to hear you respond to that.

Mr. TARRO. As with Energy, it is the same over here. Openness and disclosure is the culture here. It is a new generation of management and I subscribe to that fully.

The CHAIRMAN. So we can count on you if you see any problems out there that you will act on them. And if you can't get action within the agency, you will come and tell us about it?

Mr. TARRO. Absolutely.

The CHAIRMAN. Very good.

Senator Heinz, any questions?

Senator HEINZ. No questions, Mr. Chairman.

The CHAIRMAN. Thank you very much. We appreciate your testimony. We have a few other questions from other members. We will forward them to you. But we appreciate your responses today and look forward to your service.

Mr. TARRO. Thank you very much.

The CHAIRMAN. Let me invite Mr. Hill now to come forward.

We welcome you to the witness chair, there. You are here as the nominee to be Assistant Secretary for Housing and FHA Commissioner. We want to welcome you and congratulate you on your nomination.

I think your demonstrated commitment to the Department and your prior experience in the private sector are very important assets. You will obviously need to draw on those strengths to meet the challenge of the legislative reforms enacted by Congress and to ensure strong and vital housing programs for low, moderate, and middle income families.

As chairman of Peoples National Bank of Miami, you restored financial soundness and profitability to a community bank. I think your commitment to Government service is demonstrated by your recent tenure as president of Ginnie Mae. That job has required you to ensure the safety and soundness of the Ginnie Mae mortgage product while expanding homeownership opportunities for working families.

Your task as Assistant Secretary and Federal Housing Commissioner will present a greater challenge. In the last 2 years we have passed two new legislative vehicles to improve the management of HUD and strengthen the country's support for affordable housing. First, the HUD Reform Act of 1989 provided legislative authority to rid HUD of the problems of fraud and abuse that have become all too common over the last decade.

This committee looks specifically to the Assistant Secretary for Housing to correct past management failures in both the vital FHA mortgage insurance and low-income assisted housing programs.

Second, the Cranston-Gonzalez National Affordable Housing Act, provided specific new directives for the Assistant Secretary for Housing, as you know. We have restructured the FHA singlefamily insurance program, requiring the establishment of a new, multifamily insurance program, made changes to the elderly and disabled housing program, and established a new low-income housing initiative home investment partnerships.

So it is the clear intent of Congress that your office undertake to revitalize the Federal Government's support for more affordable housing. I consider those changes to be—which we have now set in motion to really become the cornerstones for restoring both the faith and belief in the efficacy of the HUD programs as well as their actual performance out there.

So you are about to embark on a very important job for which you bring, I think, exceptional qualifications and we will call on you in a moment.

Let me invite Senator Heinz or Senator D'Amato to make any comment they wish to make.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, I just want to join in welcoming Mr. Hill to the committee. He is no stranger to the committee. He has been working at the Department at a very important job for quite some time and he has also, of course, been working in this job, for which he has been nominated, for quite some time.

I feel certain that he will accomplish his work very, very well in the future as he in fact has done in the past.

The CHAIRMAN. Thank you.

Senator D'AMATO. Mr. Chairman, let me echo the words of my colleague, Senator Heinz, and add on the personal side I have had the opportunity, as a matter of fact this morning, to speak to Mr. Hill. I am absolutely convinced that he recognizes the enormity of the task and the importance of the task that he undertakes in his new position that he formally will be administering.

I think he is outstandingly well qualified for it. His temperament, all that is important to bring about equanimity to a very troubled area. So we certainly wish him well and I thank you, Mr. Chairman, for holding these hearings.

Hopefully when we return from our brief recess we can see that Art Hill is formally confirmed.

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Senator D'AMATO. Mr. Chairman, I am pleased to be here to participate in this hearing to consider the nominations of Art Hill to be Assistant Secretary for Housing/Federal Housing Commissioner at the Department of Housing and Urban Development [HUD] and Jim Tarro to be Assistant Secretary for Administration at HUD. These nominees will face serious challenges at HUD in divisions of the Department where their success will be critical to the successful implementation of many important HUD programs.

Fortunately, both men seem to be ready for their jobs and qualified to complete the tasks that they will be required to perform. Art Hill is coming to FHA from another division of HUD, the Government National Mortgage Association, where he has served with distinction as president during a challenging time for Ginnie Mae. During his tenure as president of Ginnie Mae and in a variety of positions as a banking officer in Florida, Mr. Hill has gained experience that will prove very valuable for his duties at the Federal Housing Administration [FHA].

The FHA and the Department of Housing at HUD have been undergoing rapid transition over the last few years. Just a few months ago, the Congress passed a major overhaul of many programs at HUD and a major reform of the FHA single family insurance program. Under Mr. Hill's leadership as acting Assistant Secretary, HUD has moved swiftly to implement many of these changes. I am confident that he will be able to continue to address the many challenges of his position and hope that we can confirm his nomination rapidly to allow him to move forward as soon as possible.

Mr. Tarro, who has been nominated to be Assistant Secretary for Administration at HUD, has most recently performed similar duties at the U.S. Department of Energy. As Director of Administration and Human Resource Management and as Principal Deputy Assistant Secretary of Management and Administration at the Department of Energy, Mr. Tarro has had specific experience that will help him focus on improving the management and increasing the capacity of HUD to perform its mission. Mr. Tarro's fine performance at the Department of Energy resulted in his being awarded a Superior Performance Award in 1990.

Before Mr. Tarro came to the Department of Energy and the Federal Government, he held a number of positions with private companies related to improving product quality and organizational achievement through skillful management and leadership.

I have consistently maintained that the private sector has much to teach the Federal Government about effective management and productivity, so I am confident that Mr. Tarro will be able to use his private sector and public sector experience to improve HUD's management and administrative capabilities and performance.

Finally, I'd like to welcome both Mr. Tarro and Mr. Hill to this committee hearing and thank them for their willingness to attend this hearing and accept the responsibilities of the offices to which they have been nominated. Thank you, Mr. Chairman.

The **CHAIRMAN**. Thank you very much, Senator D'Amato.

I want to read a statement from Senator Graham, who wanted to be present this morning and was unable to do so. It reads as follows:

STATEMENT OF SENATOR BOB GRAHAM

Senator **GRAHAM**. I am pleased to be able to lend my full support today to Arthur Hill to be Assistant Secretary for Housing and the FHA Commissioner. It wasn't long ago that I had the pleasure of introducing Art to the committee when he was nominated to serve as president of Ginnie Mae.

I am not surprised that Secretary Kemp quickly discovered something that we Floridians have known for some time now, that Arthur Hill is an intelligent and competent administrator, an outstanding professional, and an individual who has a long standing commitment to providing housing for families in need.

Arthur's resume speaks for itself. He has a successful career in banking. His brief but sound stint at the helm of Ginnie Mae, and his long standing commitment to public service are already known to the committee.

He now takes on the very difficult task of Assistant Secretary of Housing at a time when two major housing programs are being implemented. He will simultaneously serve as Commissioner of FHA at the most critical time for FHA since it began providing housing for Americans.

Both tasks will test the skills of the most able administrator. I am confident that Arthur Hill will meet the challenge and provide the leadership so desperately needed in this position.

I urge my colleagues on the committee to join me in the support of this nomination.

The CHAIRMAN. I wanted to read that into the record and note that Senator Graham held those views and wanted those views expressed publicly.

Now let me, before having you go ahead and give us your comments and introduce anybody who accompanies you, let me ask you now to stand and take the oath.

[Witness sworn.]

The CHAIRMAN. Again, welcome. And again, if there is anyone you would like to introduce prior to making your opening comments, please do so.

Mr. HILL. Thank you, Mr. Chairman.

STATEMENT OF ARTHUR J. HILL, OF FLORIDA, TO BE THE ASSISTANT SECRETARY OF HOUSING AT THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. HILL. I would like to introduce my fiance, Ms. Licia Green, who is with me this morning, and a host of my staff and associates at the Department of HUD. There are quite a number of them, so I hope I don't offend them by not mentioning their names. They are here en masse, Mr. Chairman, so if we can recognize them in that manner, I would appreciate it.

The CHAIRMAN. Very good. We are pleased to have them and you.

Mr. HILL. First of all, I want to thank both Senators Heinz and D'Amato for their very warm and kind remarks. I truly appreciated the opportunity to visit with them and I look forward to working with them over the course of the next couple of years or so.

And also, my home State Senator, Senator Graham, for his generous remarks. He was quite thoughtful and provided his thoughts in print for your sharing with the members of the committee today, even though he is in Florida and couldn't be with us; as well as Senator Connie Mack, who is away in Florida as well.

Both have served the people of Florida very well and have been very supportive of my candidacy here today and also at Ginnie Mae.

Chairman Riegle and members of the committee, it is an honor to appear before you as President Bush's nominee to serve as Assistant Secretary for Housing—Federal Housing Commissioner at the Department of Housing and Urban Development.

Mr. Chairman, almost a year ago I was honored to appear before you as President Bush's nominee to serve as president of the Government National Mortgage Association. I am grateful that the President has seen fit to nominate me to this new position of further trust and responsibility.

As president of Ginnie Mae and in recent months as acting FHA Commissioner, I have been privileged to work closely with Secretary Jack Kemp, who has a deep faith in the capacity of the Department of Housing and Urban Development to achieve the goals of housing opportunity, homeownership, and economic growth that are at the heart of HUD's mission. I look forward to having this new opportunity to work with Secretary Kemp and the team he has assembled to meet the challenges facing the Department.

I am excited about the opportunity I will have to help implement the HOPE initiatives proposed last year by President Bush and Secretary Kemp and enacted by Congress and to help the Secretary achieve the Department's goal of 1 million new home owners by 1992.

Mr. Chairman, Ginnie Mae and FHA have the same basic mission to expand affordable housing and homeownership opportunities for all Americans. Indeed, Ginnie Mae provides the secondary market support for FHA by securitizing virtually all of FHA's single family, multifamily, and manufactured home loans.

At Ginnie Mae, I have been responsible for maintaining the financial integrity of an organization with over $400 billion in securities outstanding. Ginnie Mae's secondary market support has resulted in housing and homeownership opportunities for over 13 million American families.

Under my direction, Secretary Kemp's leadership and the President's mandate, numerous reforms have been implemented in Ginnie Mae's programs that have enhanced internal controls and contributed to a net increase in profitability from over $54 million in 1989 to $380 million in fiscal 1990.

I believe that both Ginnie Mae and FHA will continue to be successful over the long term if they are operated according to the principles of sound financial management.

My experience as Ginnie Mae president, together with my professional experience in commercial and investment banking will equip me to deal with critical financial concerns of the FHA.

Mr. Chairman, under the leadership of Secretary Kemp and with the cooperation and support of the Congress, particularly this committee, an effort of perhaps unprecedented scale has been undertaken to improve the management of HUD and to eliminate the types of waste, abuse, and misuse of HUD programs that have occurred in the past. Action has been taken to halt or reform a variety of programs, a number of which fall under the jurisdiction of the Federal Housing Commissioner.

But HUD reform by itself is but the beginning of the process to ensure that, in the future, programs operate as intended and in the best interests of the people who depend on them. I intend to devote my energies as FHA Commissioner to moving ahead in several key areas.

First, we must successfully implement the 1990 reforms of FHA, as you have talked about earlier, Mr. Chairman. By operating the FHA single family insurance program in a safe and actuarially sound manner we will be able to ensure that the American dream of homeownership stays within the reach of future generations of home buyers.

Second, HUD must maintain its commitment to continuing its role as an insurer of loans for the development of affordable, multifamily housing. The delegated processing system that is being developed to replace the failed multifamily coinsurance program is expected to be in place by mid-April and it will be my responsibility to administer that program.

Third, the Department must implement the new programs enacted by Congress last year in the landmark National Affordable Housing Act. I especially look forward to the role the Office of Housing will play in implementing the administration's HOPE initiative which will serve to empower low-income families through economic self sufficiency and provide greater opportunities for homeownership of public housing, distressed multifamily properties, and government owned single family properties.

Mr. Chairman, the Department is committed to the prompt implementation of those programs in the Housing Act that provide for a fundamental redirection of housing policy. Accordingly, the administration has proposed a 1991 supplemental appropriation to fund the startup of HOPE and the HOME Investment Partnership Program, which members of this committee were instrumental in creating.

Fourth, as a manager, I feel strongly that we must maximize the use of our human resources—the many dedicated employees of the Department whose legacy of public service has been to help millions of American families afford decent housing and realize the dream of homeownership.

Over the past year, I have been privileged to work closely, not only with the team assembled by Secretary Kemp, but also the career employees of HUD whose resilience and tenacity in meeting new challenges makes me confident that together we can achieve our goals.

The position for which I have been nominated encompasses a broad range of assisted housing, homeownership, and regulatory programs that benefit low- and moderate-income families and elderly and handicapped individuals. The goal of providing decent, safe, and sound affordable housing for all American families is at the heart of HUD's and Housing's mission. Better management of FHA and all programs in the Office of Housing and making the best use of available financial and human resources is essential if we are to meet those goals.

This committee has been a leader in developing housing programs that hold the promise of expanding the availability of affordable housing and homeownership opportunity.

I pledge to you that, if I am confirmed, I will work in cooperation with the Congress to ensure that our Nation's housing goals are met and that HUD serves the best interests of those who depend on its programs.

In this spirit, I offer myself to you as the President's nominee to be the Assistant Secretary for Housing—Federal Housing Commissioner. That concludes my remarks.

Mr. Chairman, I will be happy to answer any questions you might want to share with me.

[The complete prepared statement of Arthur J. Hill follows:]

STATEMENT OF ARTHUR J. HILL

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER-DESIGNATE

BEFORE THE

SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

FEBRUARY 8, 1991

Chairman Riegle, Senator Garn and members of the Committee, it is an honor to appear before you as President Bush's nominee to serve as Assistant Secretary for Housing/Federal Housing Commissioner at the Department of Housing and Urban Development.

Mr. Chairman, almost a year ago I was honored to appear before you as President Bush's nominee to serve as President of the Government National Mortgage Association (GNMA). I am grateful that the President has seen fit to nominate me to this new position of further trust and responsibility.

As President of GNMA -- and in recent months as Acting FHA Commissioner -- I have been privileged to work closely with Secretary Jack Kemp, who has a deep faith in the capacity of the Department of Housing and Urban Development to achieve the goals of housing opportunity, homeownership and economic growth that are at the heart of HUD's mission. I look forward to having this new opportunity to work with Secretary Kemp and the team he has assembled to meet the challenges facing the Department. I am excited about the opportunity I will have to help implement the HOPE initiatives proposed last year by President Bush and Secretary Kemp and enacted by Congress, and to help the Secretary achieve the Department's goal of one million new homeowners by 1992.

Mr. Chairman, GNMA and FHA have the same basic mission: to expand affordable housing and homeownership opportunities for all

Americans. Indeed, GNMA provides the secondary market support for FHA by securitizing virtually all of FHA's single family, multifamily and manufactured home loans.

At GNMA I have been responsible for maintaining the financial integrity of an organization with over $400 billion in securities outstanding. GNMA's secondary market support has resulted in housing and homeownership opportunities for over 11 million American families. Under my direction, Secretary Kemp's leadership and the President's mandate, numerous reforms have been implemented in GNMA's programs that have enhanced internal controls and contributed to a net increase in profitability from over $54 million in fiscal 1989 to over $380 million in fiscal 1990.

I believe that both GNMA and FHA will continue to be successful over the long term if they are operated according to the principles of sound financial management. My experience as GNMA President, together with my professional experience in commercial and investment banking, will equip me to deal with the critical financial concerns of the FHA.

Mr. Chairman, under the leadership of Secretary Kemp and with the cooperation and support of the Congress, particularly this committee, an effort of perhaps unprecedented scale has been undertaken to improve the management of HUD and to eliminate the

types of waste, abuse and misuse of HUD programs that occurred in the past. Action has been taken to halt or reform a variety of programs, a number of which fall under the jurisdiction of the Federal Housing Commissioner. But HUD reform by itself is but the beginning of the process to ensure that in the future programs operate as intended and in the best interests of the people who depend on them. I intend to devote my energies as FHA Commissioner to moving ahead in several key areas.

First, we must successfully implement the 1990 reforms of FHA. By operating the FHA single-family insurance program in a safe and actuarially sound manner we will be able to ensure that the American dream of homeownership stays within the reach of future generations of homebuyers.

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HOPE initiative, which will serve to empower low-income families through economic self-sufficiency and provide greater opportunities for homeownership of public housing, distressed multifamily properties and government-owned single family properties.

Mr. Chairman, the Department is committed to the prompt implementation of those programs in the Housing Act that provide a fundamental redirection of housing policy. Accordingly, the Administration has proposed a 1991 supplemental appropriation to fund the start-up of HOPE and the HOME Investment Partnership Program, which members of this committee were instrumental in creating.

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programs that benefit low- and moderate-income families and elderly and handicapped individuals. The goal of providing decent, safe and affordable housing for all American families is at the heart of HUD's and Housing's mission. Better management of FHA and all programs in the Office of Housing -- and making the best use of available financial and human resources -- is essential if we are to meet those goals.

This Committee has been a leader in developing housing programs that hold the promise of expanding the availability of affordable housing and homeownership opportunity. I pledge to you that if I am confirmed, I will work in cooperation with Congress to ensure that our nation's housing goals are met and that HUD serves the best interests of those who depend on its programs. In this spirit I offer myself to you as the President's nominee to be the Assistant Secretary for Housing-Federal Housing Commissioner.

The CHAIRMAN. Very good. I appreciate the statement. And you have covered a number of items of interest to us.

I'm wondering, can you give us an impression now as to your best judgment as to when the FHA program will be actuarially sound as you look at it?

Mr. HILL. As you know, Mr. Chairman, prior to the passage of the FHA reforms and in the Cranston-Gonzalez, National Affordable Housing Act, the Secretary publicly stated in a meeting before this committee, and certainly to various other Members of Congress that the FHA single family fund was headed for total depletion. We were losing funds at the rate of $350 million a year, and if that trend continued, certainly before the end of the decade, we would be out of the housing business.

So as a result of the passage of the Housing Act, and certainly with a lot of effort and support of members of this committee and others, we moved quickly to get the implementation of the reform underway. On January 10, we put out a letter to implement most of the changes reflective of that end as it relates to the FHA reform. And we have one piece now which we are working on which will be coming out quickly as well.

Actuarial soundness was defined as a result of Price Waterhouse being involved in assisting us with an independent analysis of the fund. The definition of actuarial soundness that came out of that report as agreed upon by the Secretary, was to have funding with a capital level of 1.25 percent and, by the end of the decade—by the year 2000—to have a ratio of 2.0 percent.

The 1.25 percent target is to be achieved or desired to be achieved within a 2-year period after the passage of the act, so we have a little ways to go. We are just under 1 percent now, I think at about 0.9 percent, and certainly between now and when the Secretary has to come back and officially report 2 years later with respect to whether or not we have achieved the 1.25 percent, we have a good ways to go.

The CHAIRMAN. In terms of when we anticipate producing any new units of affordable housing for previously underserved poor families, what does the timetable look like?

Mr. HILL. I'm sorry, Mr. Chairman?

The CHAIRMAN. In terms of producing new units of affordable housing for previously underserved and poor families, what do you foresee in that area?

Mr. HILL. Well, as you know, we operate out of several funds—if I can answer it this way. One fund, which is the MMI fund, which produces most of our activity, covers costs associated with insurance in face of over $300 billion which relates to the singlefamily production. In addition, we have approximately $50 billion which relates to the general insurance and special risk funds. Those funds, the general insurance and the special risk fund deal basically with multifamily portion of our business.

As you know, in the act itself, the centerpiece of homeownership opportunity for people everywhere, HOPE deals with resident initiatives. The resident initiative program is geared toward giving the low- and moderate-income population an opportunity to acquire either distressed property or Secretary-held property, or property that is coming out of a prepayment mode.

That is clearly underway now.

The CHAIRMAN. Those are the existing units.

Mr. HILL. Those would be the existing units.

The CHAIRMAN. That we would transfer ownership on.

How about new ones?

Mr. HILL. That is related to the delegated processing aspect of our business. As you know, we have a full insurance program that was basically the mode of producing new units prior to 1983. In 1983, HUD, shall I say, came up with the notion of a coinsurance program to accelerate the process of production. The full insurance program just not meeting the demands as quickly as desired.

I don't need to tell you, Mr. Chairman, that as a result of that desire to produce quickly, we got into trouble and therein lies the scandal, the abuse and misuse of Federal resources that we are now trying to clean up.

The Secretary made the decision to cut off production through the coinsurance program. As a result of that, we did not have a way of producing new units within a reasonable timeframe. So we designed a delegated processing approach to produce new units. We're now working on that approach as quickly as we can.

We have a pilot program under way now and it is expected to go into full production in mid-April.

The CHAIRMAN. Mid-April. Then what do you foresee? What kind of production are we talking about?

Mr. HILL. It depends on demand and the capacity out there, I don't need to tell you the industry has been battered about a bit with respect to what's happening in the economy now. If the production, as it relates to the home builders in terms of their capacity to produce and having resources, both human and financial, to come into play, will have a significant effect on the ability to produce new units.

Now, there are sponsors who come to HUD all the time, nonprofits and for profits as well, who utilize the HUD system as a mode of producing for low- and moderate-income families. So as soon as the delegated processing approach to producing is up and running, and as soon as confidence in this new program is displayed in that new mode of production, then I think we will have pretty good production activity. So it depends upon how quickly we can get this up and running and accepted by the public.

The CHAIRMAN. Now, it would seem to me Senator D'Amato's region of the country is taking a pretty good hammering right now. In the Northeast, most people in the building business are out of business, at least for the time being. There is not a great deal going on.

With the economy in recession and that sector of the economy largely out of work right now, why wouldn't that be a great time to sort of employ some of those resources to meet some of the public housing needs?

We've got all of these people across the country that are sleeping on hot air grates and park benches and doorways and cardboard boxes. Why isn't this a good time to find a way to put some of those unused production resources to work, putting a roof over people's heads?

Mr. **Hill**. I agree with you Chairman Riegle, it is a good time. The Secretary wants to have production, he wants to do it in an efficient and responsible way. Obviously, the need is there. We are responding to—we're going back out. We want to be sure it's done in a proper fashion.

And I have to be honest with you, also to maintain credibility with you, Mr. Chairman, that as a banker, I want to make sure that if I'm associated with this new mode of production, it's done in the right way. I don't want to be before you or other Members of the Congress later trying to explain why we did not do it in an improved fashion.

So we are responding to the need. We are also responding to various failed programs. But we have to do it in a responsible manner. We can't do it quickly, though. We are in the throes of trying to get it under way.

The **Chairman**. I appreciate all the points you make. If you were to give us any kind of a ballpark estimate as to how much new production there might be, say, by the end of the calendar year, what would be a ballpark figure or range?

Mr. **Hill**. Respectfully, Mr. Chairman, if I could not answer that question because it really depends on how quickly the market responds to the delegated processing mode of production.

It is a new program, as I have indicated. It will require some refinements. And for me to attach a number based on it having to be refined and accepted by the marketplace and mid-April is not here yet, I will be happy to come back if that's appropriate.

The **Chairman**. With all due respect, and I appreciate the ambiguity, there has got to be some kind of a planning target. There has got to be some kind of a general expectation, some kind of a range between zero and something.

I mean, I know Jack Kemp well enough to know that if you are going to have a year go by, it is analogous to a football game. You have to put points on the board if you are going to win the game. And the question is, there must be some kind of a notion as to what we're looking at, if you're talking about 1,000 units, 12,000 units, 10 units.

Mr. **Hill**. We have under way now four demonstrations or pilot programs, one in Jacksonville, Greensboro, Minneapolis, and also Chicago. And the activity, as it relates to those pilot programs, is coming in now. We are going to put the program up in full force in mid-April of this year.

And with all due respect, Mr. Chairman, I really don't want to lose credibility with you by giving you a number that is not a good one or an accurate one based on getting this program accepted by those who would find it useful to produce units.

The **Chairman**. I guess I just have to say to you, you know, I don't know how to use the words differently, I don't want a precise prediction. I don't expect that and I wouldn't ask you to do that. I want you to preserve your reputation.

But, you know, you don't give us very much to hang our hat on when you say, as between zero and any number you want to pick and you can't even give a range.

Mr. HILL. Mr. Chairman, I'll give you a range between 10,000 and 15,000 units. And I'll reserve, you know, to refine that based on my comments.

The CHAIRMAN. I appreciate the reservation. You want to file the reservation and I respect it.

Mr. HILL. I do file it.

The CHAIRMAN. We've got to have something; we've got to have some planning targets here, otherwise, we're never going to get going.

Mr. HILL. I understand.

The CHAIRMAN. Senator D'Amato, any questions from you right now?

Let me just ask a couple of other things right here.

With respect to the home investment partnerships, the law explicitly states that this initiative is to be administered through the Office of the Assistant Secretary for Housing in close coordination with the various forms of Federal assistance that are needed for successful housing development, including mortgage insurance, rental assistance, and other forms of assistance.

There obviously is a strong determination in the Congress to rebuild HUD's ability to support housing and to not permit a continued deterioration in that ability.

One of the issues that's been raised in the past is whether or not the HUD housing staff is sufficiently willing or able to work with State or local units of government. Obviously, the administration is sort of putting more emphasis in that direction with the block grant concept that we're seeing in the budget and so forth.

But with respect to delivering housing assistance, I think it's clear that Congress very forcefully has in mind the idea of getting the State and local levels really connected to what we're attempting to do at a policy level and at the Federal level.

I'm just wondering what your views on that are and how you think we might go about really getting ourselves better cross connected with the people out in the States and communities that are really trying to get this job done.

Mr. HILL. Certainly. As I mentioned in my prepared comments, Mr. Chairman, the administration is seeking a supplemental and part of that will go, if we are successful in achieving that approval, towards implementing the HOME partnership much quicker. We wanted to get it going in 1991 obviously the justification for the supplemental and certainly it will require resources.

Second, there is an esprit de corps and cooperative effort with respect to HOME as relates to its implementation at HUD. We, meaning the Offices of Housing and Community Planning and Development, are working jointly to make sure that this program is up and running.

It's more akin—and I know this is a subject of debate—more akin to a block grant program, HOME is, and community planning and development. That area within the Department is very much involved historically with block grants and has a strong relationship with State and local entities.

We are working in concert with them to make sure that this program gets up and running. The Secretary made the decision to utilize all of his resources, all that are at his disposal, to make sure that this gets up and going. He decided to tap into the resources of CPD because of the historical experience of the staff and their relationship with the State and local entities, and to connect that with Housing, the area I'm responsible for, to get it out quickly and to make sure we meet the needs of those that desire to take advantage of this program to form that partnership, as you indicated. It is a 60-40 split, as you are aware, Mr. Chairman, between the local and the States and it's formed on a basis that I don't think I need to get into here because it's not clearly refined at this point as to where it is going to come out.

You mentioned that the Secretary wants to throw every bit of resources that he has at his disposal to ensure that we are responsive to not only this portion of the act, but the act in general. And this is just one instance where he has, in his imaginative way, found the notion to be desirable to take advantage of two program areas to get this important initiative under way.

The CHAIRMAN. Let me finally ask you about multifamily housing units that will be insured under FHA. What kind of performance goals are you looking at in terms of multifamily housing production? What do you see?

Mr. HILL. The delegated processing item that I talked about is our primary mode of getting the multifamily production going and healthy, because we don't have anything outside of full insurance. And that's been a slow process.

So, as it relates to the production for a multifamily delegated processing, that mode of production is under way and will be fully in effect in mid-April. I used 10,000 to 15,000 in terms of multifamily production and that is to the delivery mechanisms.

And that's why I'm somewhat hesitant because it is under the insured program of our mode of operation and is not a grant or direct loan as such, but is driven by market demand.

The CHAIRMAN. Arthur, you've been around, you're not new to this business by any means, and you have a really excellent reputation. But I'm going to ask you to give me the same pledge that we heard earlier and that is that if you see anything going on or hear anything going on that's amiss, anybody getting in the side door or the back door because of political favors or because they have cozy relationships or anything of the kind, I want your pledge that you will blow the whistle on it, no matter who is involved and not hesitate. And if you don't get a response within the Department, then I want you to come and tell us.

Mr. HILL. Mr. Chairman, I want to reaffirm my pledge I made to you the last time I was before you when I asked you to have your committee vote me out to the general Senate for confirmation. I reaffirm to you that I do value my reputation highly as you indicated. If I see any instances of abuse or misuse I won't hesitate. I guarantee that, sir.

The CHAIRMAN. I appreciate that and I say that as well, because every time we do that it strengthens your hand and that of your colleagues. As long as that's the understanding that exists, I think it acts as a purifier in the system and it's important that it do that.

Very good. We may have some questions for you for the record. If so, we will get those to you promptly.

Thank you for your presentation today and we enjoyed meeting your fiance as well.

Mr. Thompson, let me invite you to come forward. Let me again welcome you, Mr. Thompson, and make some comments with respect to your background and position.

You are a native of Los Angeles, you have been nominated by the President to be a member of the Export-Import Bank's 5-member board of directors, which includes the president and vice president of the Bank.

The Eximbank's charter provides that of the Bank's 5-member board of directors, "not more than three shall be members of any one political party." I am informed that Mr. Thompson, if confirmed, will be one of the 2 board members who are not members of the President's party.

Another provision of the Bank's charter requires that 1 board member should be responsible for "all matters concerning or affecting small business." Mr. Thompson, if confirmed, is to take on small business responsibilities at the bank.

The principal role of the Export-Import Bank is to promote sales by American exporters in all parts of the world. It does this by making direct loans to exporters through financial guarantees to private lenders who finance exports through commercial and political risk insurance.

The bank's job of helping our business, large and small, find ways to finance their exports is especially critical now as America finds itself as the largest debtor nation in the world. We have dug ourselves into that hole by running massive annual trade deficits over the last 10 years.

To get out of our international debtor status, we must both put our economic house in order in the country, and also export as we have never exported before. To do the latter, we've got to strengthen our export promotion and finance programs and our outreach programs to America's small and medium sized businesses so we can get them more fully into the exporting business.

As a member of the board of directors, Mr. Thompson will have a key role in helping to formulate America's export financing and promotion programs. He brings with him to that position, as is noted by the Senators that were here to speak on his behalf, a wealth of valuable experience in both the public and private sectors, including years living abroad where he has seen first hand the need to strengthen America's export financing efforts.

So I very much welcome you to the committee today. Let me, before you make any opening remarks, ask you to stand as well and raise your hand and I will administer the oath to you.

[Witness sworn.]

The **Chairman**. Very good.

Mr. Thompson, do you have anyone with you that you would like to introduce to us, and then I would like you to proceed with your personal statement as well.

STATEMENT OF CECIL B. THOMPSON, OF VIRGINIA, TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK

Mr. THOMPSON. Thank you very much, Mr. Chairman. Yes, I would like to recognize the presence of my wife, Karen, my two daughters, Nevah and Leah.

The CHAIRMAN. They all look so young. Which one is the mother here?

Mr. THOMPSON. That's very kind, sir.

And my good friend for so many years, over 20 years, Mr. B. Jenkins Middleton, and also Mr. Fred Ruth, vice president for Congressional Affairs of the Export-Import Bank.

The CHAIRMAN. We welcome the presence of all of them and yours as well.

Why don't you go ahead and make any other comments you wish to make by way of an opening statement.

Mr. THOMPSON. Thank you very much, Mr. Chairman. With your permission, I do have a statement which, in the interest of time, I would propose not to read at this point, but would like to submit for the record.

The CHAIRMAN. Why don't you just give some of the highlights, but I am really interested in some of the things that are really in front of your mind.

Mr. THOMPSON. My name is Cecil Thompson. I am a resident of the State of Virginia, and have been nominated by President Bush to serve as a member of the Board of Directors of the Export-Import Bank of the United States. I am very honored by this nomination and feel privileged to have the opportunity it provides me to serve this outstanding agency of the U.S. Government in such a challenging capacity.

As you noted in your remarks, Mr. Chairman, in addition to other responsibilities, the independent directorship to which I have been nominated is designated to represent the interests of small and medium sized U.S. businesses. If confirmed, I very much plan to devote a good deal of my attention and to focus my efforts in addressing this important area of the export trade sector for the United States.

Mr. Chairman, the growing importance of the export sector to the economic well being of this Nation, I think, is well understood and accepted by everybody. There are particular sectors within that export trade that are of extra importance because of the very important role they play in the world economy, the developing world economy in particular, and with respect to the particular industries in this country that provide those goods and services: I'm speaking here of transportation, telecommunications, power generation, and of course others that are critical to infrastructural development.

I think that the role of the Export-Import Bank is especially critical today because the export sector faces, in the world economy, a particular kind of competition that is, I think, growing more intense and is very much to the disfavor of U.S. industries. I'm speaking here of actions on the part of our major industrialized partners with respect to the type of support they give to their industries. It is a type of support which distorts the market and I think distorts the purposes of the aid and the trade-related opportunities these industrialized countries use to support their industries. I think that the Export-Import Bank has a very key role to play in trying to balance the distortions that are a consequence of that.

Another area that I think is of particular importance, growing importance, is that of small businesses. The small businesses of the United States are very much interested—I know this personally—in expanding their involvement in export trade. They don't know how to do it, many of them. They don't know who to talk to, they don't know what to expect. Yet they are quite willing to take the risks associated with normal commercial activity.

I think that many of the markets that are emerging and developing in the world, not only in developing economies but also in regions such as eastern Europe, do provide opportunities for expanded involvement of U.S. small businesses. And I believe that programs the Export-Import Bank has under way, as well as new initiatives by Commerce Secretary Mosbacher, are addressing an important component of that potential trade.

But I think much more needs to be done. I think it is going to take some innovative, imaginative, and perhaps provocative approaches, probably many that are not entirely in keeping with our traditional approach to export trade.

But I think unless we do that, we are going to find ourselves continuing to struggle to hold on to what we have in the export sector, while over trading partners increase their relative share.

I think that would be most unfortunate for this country and for the businesses within this country, and I think, also, even for some of the client countries—the developing countries—that would be the beneficiaries of the export trade that I am speaking about.

I feel that the Export-Import Bank, if you look at the total volume of export activity that it handles with respect to the total volume of exports for the United States, is a very small part. But it's a very small part of a very important sector in our industrial economy, especially the manufacturing sector.

So, therefore, I think that the Bank deserves the kind of support that it has been getting from this administration in particular, the attention that it has been getting from this Congress, this committee, and I hope very much and plan that the experience that I have had professionally here and abroad will allow me to make an effective contribution to that goal.

I believe I am qualified for that. I believe the President has made that judgment, and I sincerely hope that you, Mr. Chairman, and the distinguished members of this committee, and your colleagues in the Senate, will concur with that judgment and confirm me for this position.

[The complete prepared statement of Cecil B. Thompson follows:]

STATEMENT OF
CECIL B. THOMPSON
NOMINEE FOR
MEMBER, BOARD OF DIRECTORS
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
FEBRUARY 8, 1991

Mr. Chairman, Members of the Committee:

My name is Cecil Thompson. I am a resident of the State of Virginia, and have been nominated by President Bush to serve as a Member of the Board of Directors of the Export-Import Bank of the United States. I am very honored by this nomination, and feel privileged to have the opportunity it provides me to serve this outstanding agency of the United States government in such a challenging capacity.

Mr. Chairman, I would like briefly to share with you and the members of this distinguished committee, my views on the critical and growing importance of exports to the economic well-being of this Nation, and in that context, my understanding of the unique and critical role of the Exim Bank. I hope my views will make evident how I feel I can contribute to the legislative purpose as well as the policy goals and objectives of the Exim Bank.

In addition to other responsibilities, the independent directorship to which I have been nominated is designated to represent the interests of small and medium-sized US businesses. In my remarks today I shall therefore, pay particular attention to my view of the Exim Bank's role in enhancing exports, from that growing and increasingly important sector of the US export community.

Mr. Chairman, as you and the other members of this committee know very well, the world economy is becoming more complex structurally, more sophisticated technically, and more competitive economically. Expanding economies are providing growing markets for all types of goods and services, especially in power generation, transportation, telecommunications, construction equipment, and other products and services so essential to the infrastructure of maturing and developing nations. This of course is good news for the US commercial sector.

But the expanding economies of the industrialized as well as the developing economies also are increasing the quantity and quality of suppliers of goods and services seeking markets; and the US is the single most attractive market in the world economy. That is good news for the US consumer, but more sobering and challenging for the US commercial producer and supplier.

The US provides foreign suppliers with a rather unique and distinctive environment of commercial opportunities: our economic philosophy is based on relatively unfettered access to the marketplace, including ownership of US production assets; our commercial policies and practices are consistent with our economic philosohpy; and our commercial infrastructure and the vast size of our markets, minimize the information and contracting costs involved in commercial transactions.

The attraction and involvement of foreign suppliers is beneficial to the US economy, and is consistent with our long-standing commitment to free trade, in principal, policy, and practice. But the attractiveness of the US market also means that even as the international export opportunities for US producers are increasing as a result of world wide economic growth and expansion, so too is the foreign competition here in the US.

In an effort to retain their relative share of world commerce, US producers increasingly have turned to exports. Exports not only help US producers offset the effects of foreign competition in the US, they also help to balance the impacts of cyclical commercial activity in the US domestic economy.

Many of the export markets however, are characterized by conditions and factors which constrain competitive opportunities for US exporters. These are well-known to all of you so I'll not extensively reiterate them here. But they directly impact the purpose, policies, operations, and future focus of the Exim Bank.

Some of those factors result from political risk and related non-commercial trade factors and uncertainties which cannot readily be accommodated in the normal commercial calculus. These are well-recognized, understood, and accepted by the international commercial community. They are not unique to any particular country or export sector, though their impacts differ.

In any event, they are handled effectively through established international agreements and arrangements. As such, the responses to those non-commercial factors on the part of other governments and foreign suppliers, do not distort the commercial terms of trade operating within those markets. Thus US export trade is permitted to proceed effectively and efficiently in competition with foreign suppliers facing the same commercial opportunities and constraints.

Some governments however, don't appear to share the US economic philosophy, and have adopted commercial policies and practices which adversely impact the ability of US exporters to compete in the affected markets. Some of the foreign competition encountered by US exporters too often appears to take the form of or at least has the same effect as commercial partnerships or joint-ventures between foreign producers and their host governments. These market-distorting practices of course are not acceptable and have to be countered.

As the official export credit agency of the US government, the Exim Bank plays a unique and essential role in contributing to the Nation's economic growth through export trade. In this regard therefore, the Exim Bank has two primary objectives: the first is to help to sustain an international trade environment within which US exporters can compete effectively for their share of the expanding world markets. This means first and foremost, offsetting the political risk and other types of non-commercial factors which cannot be accommodated within the normal commercial marketplace, or in any event can be handled more effectively and/or at lower cost through mechanisms such as the Exim Bank.

The other primary objective of the Exim Bank however, is to monitor and where necessary, take actions to offset the practices of other governments which distort the relative costs, prices, and other key terms and conditions of trade facing US exporters. Exim Bank's efforts in this regard often are referred to as "leveling the playing field." I believe this role for the Exim Bank will become even more important with the increasing intensity of foreign competition in the international export market.

Elaborate and complex rules governing export trade have been established, and are monitored and administered through various international arrangements and agreements. These arrangements and agreements are testimony to the importance of such trade to the economies of the major exporters. They also suggest the scope and magnitude of the substantive differences in philosophy and approach to export credit competition among the US, its major exporting competitors, and the client countries they serve.

The Exim Bank has vigorously and effectively argued the US case for eliminating market-distorting support of export trade by other exporting countries. Those efforts have been successful to a degree; but abuses still occur. And I suspect such abuses would

quickly multiply in the absence of due diligence by the Bank and other US agencies. In this regard, the Exim Bank has significantly enhanced the impact of the US position with its selective use of the tied-aid "war chest." This US trade weapon has demonstrated effectively the consequences when the US adopts the rules and practices of some of its major industrial competitors.

Mr. Chairman, as I mentioned in my opening remarks, if confirmed, the interests of small and medium-sized US businesses will be a major focus of my tenure at the Exim Bank. I believe the Exim Bank is playing an effective role in expanding the involvement of this very important US commercial sector in the US. I think the statistics cited by the Exim Bank in this regard are very encouraging in terms of the increased number of small and medium-sized US businesses involved in US export trade today compared to yesterday and the day before.

That encouraging view is sobered however, when we look at the number of small and medium-sized US businesses that could be involved in export trade. There is very good news in terms of where we are compared to where we were; but we still have a long way to go to make substantial inroads to the potential. How to accomplish that is not obvious.

Clearly, export expansion is a major component of the economic growth objectives and policies of the Administration and I believe also the Congress. Commerce Secretary Mosbacher's National Export Initiative is a prime example. John Macomber, President of the Exim Bank, is taking a key role in this ambitious program which also involves the principal executive officers of several other participating agencies.

The Initiative calls for visits to approximately 25 of the small cities throughout the US - especially in the midwest - over the next seven months, to present and explain the many federal programs dedicated to assisting the small and medium-sized US business in expanding their export sales. I believe the effort has the direct support of the President. In this regard, the level and scope of official representation and support, as well as the plans for followup, certainly are unique if not unprecedented.

I believe such efforts are essential to increase significantly the participation of the small and medium-sized US businesses in export trade. During my years working abroad, I frequently heard representatives of foreign governments and businesses comment about the apparent adversarial relationship between US business and government. At times there seemed to be evidence of such a relationship. Certainly that was not the relationship between other governments and businesses. And the effects of the differences in those relationships were clear and important.

There is demonstrable evidence today that this unsupportive relationship between US government and business - if it existed - is changing. But it will take more than a change in attitude on the part of the US government to have an impact, especially for the small and medium-sized US businesses, because they face many obstacles unique to export trade, and therefore unfamiliar to most small businesses.

One of the obstacles is the general lack of knowledge about export opportunities on the part of this segment of the US commercial sector. Secretary Mosbacher's Initiative and other efforts such as the Exim Bank's innovative City/State program certainly go a long way toward addressing this need.

Another problem uniquely facing the small and medium-sized US business is the financing needed to even prepare an export deal. The Exim Banks Working Capital Guarantee Program is very useful in meting this need.

The traditional attitude toward small business export trade in the commercial banking sector also has been and still is an obstacle to the expansion of US small business into the export sector. Trade financing is not as attractive an undertaking for commercial bankers as it once was; and even when it was attractive, small and medium-sized US exporters were not of major interest. This constraint will have to be diminished or the guarantees can't work.

There are many statistics pertaining to small businesses in the US: how many there are; how many export; what percentage of total US exports they account for; how many are interested in exporting. I can't speak to the accuracy of those statistics at this time. I'm sure however, that there is a huge untapped potential in that sector.

I am not talking about so-called mom and pop operations. I'm referring to companies with quite a few employees - hundreds - respectable sales volume - millions of dollars - and very well-managed in terms of demonstrated capability to deliver the goods, on time, and quite willing to accept the normal commercial risks involved. But they don't know exactly where to go - who to talk to - how to talk to them - what to ask for - what to expect - how long it will take - and the likelihood of succeeding.

I believe US efforts to enhance and support the economic development in Eastern Europe should include US small and medium-sized businesses. The commercial infrastructure and institutions of many of those countries are very immature. Establishing and nurturing that infrastructure and institutional development involves many of the types of problems and obstacles inherent and common to US small businesses. The knowledge, information, and experience required is more typical of the US small business than the large corporation.

Some of the commercial knowledge and experience required by the fledgling enterprises in Eastern Europe and elsewhere, closely approximates the type of technical assistance programs which we as a nation have provided to many developing economies. I believe small US businesses could provide that type of assistance directly through commercial relationships with emerging entrepreneurs in those countries.

Let me be clear. I am not talking about commercial give-aways. No one can afford that. If the prospective opportunity can't cover all of the costs involved, within a reasonable time frame, then it's an opportunity that should be foregone. But many potentially profitable opportunities don't make it because they are not as profitable as other alternatives.

Many opportunities that can't cover the administrative and related costs on an individual company or individual sale basis, could do so if there were some way of pooling the administrative and financial resources required, and therefore spreading the overhead costs of preparing and making the deal(s).

These of course are only ideas - and they need to be further explored and developed. But they are illustrative of the type of innovative, imaginative, and perhaps even provacative, efforts I believe will be needed if we are to increase significantly participation by the small and medium-sized US business in export trade.

Where the problem is trade financing, the Export Bank will be needed and has ably demonstrated what it can do. But there are many other obstacles facing this segment of the US commercial sector, and many of them are encountered long before trade financing becomes the primary concern; and some of them remain even after the issue of trade financing has been addressed.

Mr. Chairman, I believe the Exim Bank is playing an important and very effective role in supporting US export trade. With the active support of the Administration and the Congress, the Exim Bank has distinguished itself as an able and effective supporter of and advocate for the US commercial export sector.

I believe however, that through the coordinated and joint efforts and good offices of agencies like the Exim Bank and other export-dedicated US government agencies and programs, the US can and must have a larger presence in international trade.

I believe we as a country will have to plan to do even more than we have done and are doing, in order to assure that the US export sector continues to thrive in the face of an increasingly competitive international commercial environment. As that competition becomes more vigorous, so too will the tendencies on the part of foreign competitors to secure their position within those markets.

This will provide ample reason if not opportunity for market mischief - and we shall have to be watchful. We shall also however, have to be prepared to adapt to that changing international economic and commercial environment; and that might call into question some of the traditional approaches to international commerce we have adopted to date.

Certainly the Exim Bank has - within the capabilities of the resources it has available -distinguished itself in supporting US commercial exports. I believe that role should expand and adapt to the changing requirements and realities of international commerce, as well as the emerging and changing conditions in the US domestic economy.

Adaptation will require imagination and at least a little experimentation. There is little virtue in strict adherence to the traditional roles and approaches if the result is a relatively smaller piece of the international commercial pie. Other than strict adherence to the rule of commercial viability of all export transactions, I believe all reasonable avenues to expanding US commercial exports should be considered.

Thank you Mr. Chairman, and Members of the Committee. I shall be pleased to address any questions you might have.

The CHAIRMAN. I appreciate that statement. As I understand, in keeping with the requirements that I cited at the outset, you are not a member of the President's party, do I take it?

Mr. THOMPSON. That's correct.

The CHAIRMAN. Your political affiliation is really your own business, but I want to know whether I can infer by that that you are independent or do you have any party affiliation?

Mr. THOMPSON. No; I am independent.

The CHAIRMAN. Mr. Thompson, do you view the Ex-Im Bank Board as an independent agency?

Mr. THOMPSON. Yes. I think it is supposed to operate independently. I think it does. I think the kind of activities that it undertakes and the way it undertakes those activities is independent.

The CHAIRMAN. I think it is too and it's very important. I wanted to know how you think about it because I think you are an independent nominee. If you are confirmed a board member of an independent agency, you are in fact that. That doesn't mean that you don't carry a certain sense of allegiance, maybe, to the folks who put you there or what have you, and not that you shouldn't. But the fact is, the minute I think you become confirmed and you take the oath and assume the position, you are a bona fide independent party and have to think and work that way.

Would that comport with how you view it?

Mr. THOMPSON. Yes, it does.

The CHAIRMAN. In that capacity, would I be right in thinking that is for a 4-year term?

Mr. THOMPSON. Yes, it is.

The CHAIRMAN. In going over your background statement, you and I have several things in common. One is that I labored at the same time you did for my doctoral degree. And, as you may have gathered from that little bit of repartee with Senator Heinz, I was working on my doctorate at the Harvard Business School and I left in the early 1960's to run for Congress and haven't done the thesis. On any résumé I would put together, it would say, as yours does on that first page, Ph.D. candidate or DBA candidate, dates of degree, no degree. Because we obviously were off on other things.

But you bring, I think, a wealth of professional and life experience here. I take the time to note it because I think there are some unusual requirements that go with this job at this time. You've touched on some of them in your summary. And that is, that this is not just any ordinary time for the United States. We've got major trade problems. We've got an enormous trade deficit. We've got it down sort of in the $100 billion range, give or take, but we're having a very hard time pushing it much below that. And we are adding international debt still at the rate of about a $1 billion every 3 days.

I was in New York some time back and I asked a group of managing partners of a major international investment house what the implications would be if the United States owed the rest of the world $1 trillion balance of payments account, which is about where we are going to be in 1½ years. We are moving steadily toward that at the clip of $1 billion every 3 days.

Their answer to me was that they didn't feel they were smart enough to be able to say what $1 trillion outstanding international debt would mean to this country, until the mid-1980's a creditor nation; we'd been a creditor nation going all the way back to 1914, but they said we would be really irresponsible to find out as a country. In other words to reach the $1 trillion debt mark and crash through it is really not good national thinking, planning, performance, what have you.

Somebody has got to somehow find the words to articulate the implications of these trend lines and where they are taking us, particularly as these trading imbalances tend to start to cause high value added jobs in this country to disappear or move elsewhere offshore, where there are certain advantages for producing offshore by individual companies.

And we are seeing a real problem in our ability to maintain a middle class. And if you don't maintain a large, strong, and robust middle class, it's pretty hard for people who may be in the class below middle class to aspire to get out of that and get up into the middle class, especially if people in the middle class are sliding down the hill into something less attractive than that.

We need to find a way to get some articulation from professionals who know what they're talking about and who have the courage to speak out, to help the country to start to understand how the nature of this new global economy works and what it's meaning to us and what it's doing to us today and what it's doing to us as we go down the track.

Robert Reich, one of the people who comments on this and writes articles about it, had a piece not too long ago in the New York Times Sunday magazine, and has made the observation that if you look at economic trends in our society today, the society really cleaves into two groups. The top 20 percent of the country is basically still getting ahead economically. We're sort of making net progress over inflation because of their own individual circumstances.

The other 80 percent of the population is either treading water or sliding backward in terms of its net economic standing and it's a new development in this country.

We've added a lot of data together and cross referenced a lot of things. As an economist with your level of training you would be able to do that to start to even draw implications out of the data that would suggest this. And in putting that forward, he makes the point that as you start to look at all the sort of outer layers of how our economic system is working and how the global economic system is working, you see things at work that are causing that to happen of which the trade deficit is one part and the disappearance of higher paying, high value-added middle class jobs is another part of the picture.

I think there is really quite a desperate need to reverse these trend lines. You don't have to throw a recession or, God forbid, a depression in on top of it to imagine that if you get enough economic stress going on in your society, you're going to have a society that more and more is at war with itself.

In fact, yesterday there was a piece in a little newspaper on Capitol Hill called Roll Call. There was a long piece on a 75-percent increase in street crime in the immediate vicinity of the Capitol here because of the economic crime set of factors at work that are causing people to rob and otherwise get income from somebody else, that, I suppose for some reason or other they're not getting some other way.

I don't want to test the outer bounds of the fabric of our society. In fact, I think some places we're already out beyond any wise and prudent place to be in terms of what I see in some of our major cities, particularly.

But someone with a big mind, several someones with big minds and lots of information and life experience have now got to take and integrate more and more of this economic reality and trend lines into a coherent picture and then abstract out of that some fairly simple observations. They are obviously very complex, but they have to be made simple so that in a world of 10 second sound bytes and 5 second sound bytes, there's some way to try to convey to the public something of what's happening through all this.

I take the time to say all that because that may be the most important thing you have an opportunity to do in this position. You're going to have a lot of day-in-day-out work to do and a lot of decisions to make and a lot of important sort of mechanical operations to conduct. But somebody has to be able to divine from all of this where is it we're going, what is this trend line we are riding into the future? And, if it has a very ominous look to it, how do we wake up to that fact, how do we understand it, how do we make sense out of it, how do we track it down in terms of the kinds of things we need to do?

And you may be as well equipped, and we don't know each other beyond this very cursory kind of acquaintance, but you may be as well equipped to apply the right kind of mind to the issue—you now have a platform from which to speak. You could be very valuable to this country and very valuable to a lot of people out there who are sort of sliding down the slope and can't make sense out of it and don't know and can't be heard.

You can be heard. And I am going to ask you, as you take this on, and I am very much a supporter of your nomination here and your confirmation, as you take this job on, I would ask you to try to use this position to not only refine your thinking on some of these issues, but to articulate it, to become something of a public spokesperson on these things and to parlay this wealth of preparation and experience and know-how you have into some effort to articulate for the public and for all of us a sense as to some of the risks we're running and some of the fundamental things that have to be dealt with here.

That may be to the extent that you can make a contribution in that area, and I think you can, that may well be the most important thing you do during the 4-year term. And not to minimize in any way all the other important things you may be doing, but I would like to say that to you and I would like to ask you to assume some of the leadership in that area because I think the country needs it and I think you are in a position to provide some of that.

Mr. THOMPSON. I understand that very much, Mr. Chairman. I share your views; I share your concerns. I think, as I look over what's going on in the banking community today for example, and I have shared some thoughts in that regard with some colleagues, I don't think it's appreciated how critical to this economy the status of our banks and banking system is—I'm talking here about its credibility, people's confidence in it. What's happened lately has raised questions that I think most people never thought they would ever have to face in their lifetime. They read about it in history books, but they never thought they would be seeing it.

I don't like to get personally anecdotal, but a few days ago a news program was listing the status of local banks, the good ones and the not-so-good ones. I wasn't paying a lot of attention until mine appeared on one of the not-so-good ones.

I don't want to make too big of a deal of that. I think in a sense, the media and those who speak to and for it, can give us a disproportionate sense of concern. I think some of that is operating. But that's also a part of the fabric of the new concerns.

I appreciate your point about trying to bring some sense to it. And I don't know what sense I can bring to it, but certainly that is my intention and, to the best of my ability, that is what I certainly will try to do.

The **CHAIRMAN**. I would hope that you take the occasion to put forward any bold ideas or any fresh thinking that you can develop because you are about to be liberated. You are going to have a 4-year term as an independent board member, a platform from which to speak. And you don't owe anybody anything.

So I think you should see yourself as an agent for constructive change, constructive debate. And I think, if you've got some ideas that need to be expressed that maybe run counter to some of the long standing dogma, I think you've got to feel not only free to say it, I think you've got to feel some obligation to say it because we're posing you an opportunity for that kind of leadership that nobody else is going to get, because you're getting the job and I think you are the right man for the job.

So I'm sure that Karen has probably already gone down to that bank and withdrawn the money [laughter] and switched it over into one of the other banks. But I think I saw the same show and it was striking that we find ourselves in this situation.

But our banks aren't going to be strong if our economy is not strong. We can't have so many people under employed and unemployed and have a situation where we're consuming more than we're producing. I mean, you don't have to get much beyond an initial economics course even in the first year of college to know that you can't consume more than you produce for very long without getting into trouble.

And that's certainly true for countries, especially if we want to spend $1 billion a day on a foreign war. Throw that in on top of everything else, not to mention the people.

Let me just touch on a couple of other things here and then I'm going to give you some questions to respond to for the record.

What's your view on whether or not the banks should get into the business of financing military exports? There's considerable debate about that, as you know.

Mr. **THOMPSON**. Yes. Frankly I think, in principle, there is no reason to rule out any legitimate export area; and certainly the importance of the defense sector to this economy and to our strategic security is well appreciated, well understood.

On the other hand, I appreciate the concern that I'm sure is there. I certainly have heard a little bit of it, about the prospects for military sales within the Bank crowding out other activity. Having said that, I think in principle, everything should be a legitimate prospect within the Ex-Im's purview. I do feel, however, that the nondefense areas should have some primacy within the Ex-Im Bank's activities.

As I understand it, there is to be a pilot effort, a test I suppose, for a while in which authorization will be given to commit up to a billion dollars for military sales. But as I understand it, it's not a set-aside. The Bank doesn't have to commit that amount.

I think the way the Bank operates, in any event such sales or prospective sales requires that the applications would have to take their place in the queue; and I believe they would also have to meet the criteria of creditworthiness and reasonable expectation of repayment, et cetera.

And I think the countries that we're talking about in this particular case are all credit worthy countries. So I don't see any reason why we shouldn't go down that path.

I think we should go down that path with caution and I think we should be prepared to get off that path if it looks like military sales are going to come up against or disrupt what I really think is the primary activity in the noncivilian area for the bank.

The **Chairman**. Let me just ask you one other thing now. Then I am going to ask you to respond to some other things for the record.

This is in the area of tied-aid credits. In September 1989, Secretary of the Treasury Brady and Ex-Im Chairman Schomberg transmitted to this committee a report on tied-aid credit practices of other countries that was mandated by the Trade Act of 1988. In that report, the administration recommended, and I quote:

> The central thrust of the U.S. response to the tied-aid credit problem should be vigorous new negotiations aimed at substantially reducing the commercial disadvantages for American exporters engendered by the tied-aid credit practices of other countries.

Do you know whether negotiations since that time to restrict the use of tied-aid credits have been successful and what policy thoughts do you have as to what ought to be done in that area?

Mr. **Thompson**. With respect to the first part of your question, it is my understanding that the United States does have some commitments from its industrial partners to reduce tied-aid practices in eastern Europe. There has been some understanding, and I believe, they are heading toward a ministerial meeting in the June-July timeframe this year, in which they would seek to put into effect those understandings.

With respect to the latter part of your question, in general I think that when we look at the volume of tied-aid going on in the world—the Pacific Basin comes to mind—on the part of other export credit agencies, it is fairly impressive; it's in the billions of dollars.

Frankly, I don't think we can afford to get into that kind of business from the perspective of—if you can't lick 'em, join 'em. I don't think we can afford to join them.

I think, however, that we are going to have to continue to play the leadership role as we have been, and I think, to use the so-called War Chest to make the point that tied-aid really is not to the benefit of the world economy, though it certainly is fine for the public to play that game.

My personal view is that what the developing economies are buying through tied-aid might not be the best in terms of what they need for what they're spending. But they might have no other way of getting that particular project. Tied-aid certainly distorts the picture for the U.S. companies involved. And I think it's having the effect of taking the aid that needs to go in one direction, and shoving it in other directions for commercial purposes.

I think there is this understanding in principle, maybe in our heart-of-hearts, that maybe tied-aid isn't the sort of thing that should be done. On the other hand, when push gets to shove and we get into the hurly-burly of the competitive sector, all bets are off.

I have certainly seen a fair amount of that in the 7 or so years I've spent abroad. I think the U.S. position at this point, as I understand it, is the right one, to continue to exercise leadership in getting governments to get away from the tied-aid and, where necessary, to selectively and with some vigor, use the War Chest to make our point, that we are capable of playing the game the way some of our industrialized partners do. But we don't believe that's the way the game should be played.

The CHAIRMAN. Very good.

There's a lot more we could talk about today and I sort of waxed on here for a while, so I'm going to send you some questions for the record. I'll look forward to supporting your nomination and I think you will do an outstanding job.

Mr. THOMPSON. Thank you very much.

The CHAIRMAN. I'm going to take just 1 minute before we go to our last nominee.

[Pause.]

The CHAIRMAN. Thank you for your patience.

Today we're going to consider the President's nomination of George Pfau to be one of the 5 public directors of the Securities Investor Protection Corporation. Of these 5 directors, 3 are required to be associated with the securities industry, and 2 may not be.

Mr. Pfau is the senior vice president of Paine Webber and has been nominated for one of the positions required to be affiliated with the securities industry.

SIPC protects customers' assets, cash, and securities held by broker dealers for their customers. Upon the failure of a broker dealer, SIPC protects customers' cash and security held by the broker dealer up to a figure of $500,000 in total, customer cash alone held by the broker dealers.

Put differently, if at the time it fails, a broker dealer's holding customer cash or securities and has insufficient assets to return all customer cash or securities, SIPC will reimburse each customer for cash losses of up to $100,000 or total losses up to $500,000.

It should be emphasized that SIPC does not protect securities customers from market losses, that is, declines in the values of securities purchased. It is important that the public understands the level of protection and the limits of protection that are provided by SIPC.

Another significant issue is whether the SIPC fund is adequate to cover any loss that may occur. Specifically, this committee should know whether the SIPC fund could withstand a market break that might exceed in scale the 1987 market crash.

This nominee brings with him some 35-plus years of experience in the securities and brokerage industries. I think he is someone with this background who understands the importance of market confidence to maintaining a fair and orderly securities market. So we are pleased to have you today.

Before you start, I'm going to administer the oath to you and ask you if you would stand, please.

[Witness sworn.]

The CHAIRMAN. Very good. Let me invite you as well to acknowledge anyone who may be with you and then we would be pleased to hear your personal statement.

STATEMENT OF GEORGE H. PFAU, JR., OF CALIFORNIA, TO BE A DIRECTOR OF THE SECURITIES INVESTOR PROTECTION CORP.

Mr. PFAU. I thank you, Mr. Chairman. My wife would like to be here, but she isn't; she's in San Francisco.

Thank you, Mr. Chairman, for the opportunity to be with you today. I must say it has been enormously interesting for me to see my predecessors and to hear your comments and theirs. I have learned a great deal.

As you know, Mr. Chairman, I have been nominated by the President to be one of the 7 directors of the Securities Investor Protection Corporation. I thank President Bush for nominating me to that position and giving me the opportunity to serve my country in this capacity.

I was going to describe the SIPC organization, but you've described it so well, I won't take your time by repeating your own words. But let me go on to say by law the SIPC's board is composed of 2 public members, 2 Government representatives, and 3 industry members.

As one of the industry members of SIPC, I look forward to the opportunity of working with the other directors to ensure the congressional intent of the SIPC program continues to be carried out. This includes not only the administration of SIPC customer protection proceedings, but also the very important matter of being satisfied that SIPC is adequately funded.

In this regard, I am pleased to note at the present time that the SIPC fund is approximately $570 million. This, combined with a confirmed $500 million line of credit SIPC has established with a consortium of banks throughout the country, gives SIPC resources over $1 billion. In addition, SIPC has the statutory right to borrow $1 billion from the U.S. Treasury if necessary.

If confirmed, I will work with all the other members of the board to assure that it will not be necessary for SIPC to rely on the statutory borrowing authority from the Federal Government. I note with interest that the testimony made just a few weeks ago before this committee by the Chairman of the SEC that, "the SIPC fund appears to be well-capitalized in comparison with any reasonably foreseeable broker dealer failures."

The SIPC board of directors has the responsibility to make sure SIPC is and continues to be adequately funded. Finally, I believe it is important that SIPC continue, as it has for 20 years, to carry out the important role in the protection of investors in our country's securities markets.

Mr. Chairman, I am grateful for this opportunity to be here today and I would be delighted to answer any questions you may have.

The Chairman. Thank you very much. For the record, as a SIPC public director, you will serve part time and are unpaid.

Mr. Pfau. That is correct, sir.

The Chairman. So this genuinely is a public service and that should be noted.

Now, I appreciate your laying out the fact that there are about $570 million in the fund and there's a standby $½ million line of credit and there's a further backup line of credit from the Federal Government of another $1 billion.

Now, at the present time, in ballpark figures, can you give me a sense as to what the total dollar volume activity of the broker dealers that rests on this insurance system?

Mr. Pfau. Well, I can answer that in several different ways. But here are some points that may be worth considering.

SIPC's fund currently, as I said before, is $570 million, the highest it has ever been since its inception, quite different from some other funds we know. In addition, SIPC has a confirmed line of credit which we've discussed with a consortium banks. The number of customer proceedings SIPC has had to undertake in recent years averaged 7 per year, compared to SIPC's early years when it handled 15 to 40 cases per year. Frankly, I would like to see that down to zero.

The Chairman. Aren't there fewer broker dealers than there used to be, at least in size?

Mr. Pfau. I don't think so. There are more members.

The Chairman. I see.

Mr. Pfau. As I understand, SIPC's board of directors has been examining carefully the adequacy of SIPC to meet its needs. I will need to make sure that that continues. I might add that here is a study by Deloitte & Touche which deals with this subject in great depth and I have had the pleasure of studying that.

The Chairman. Here's what I'm wondering. There's a reference to that in an article in Forbes magazine on February 18 and I am going to make that part of the record at this point.

Here is what I want to understand and you may or may not have the data. If you don't have it I would like you to get it for me and report it to the committee.

What I want to know is that sitting on top of this insurance fund, as it has just been described are a certain number of broker-dealers with accounts totaling some combination—some aggregate number that represent all of the cash and securities that they hold and the names of customers across the country.

Do you have any idea what that total would be? Is it a trillion dollars?

Mr. Pfau. I'm sorry, sir. I really don't have that amount at my fingertips.

The **Chairman**. I don't fault you for not having it. But one of the problems is, I don't think we know enough about this fund and how it works and I intend to change that. I don't say that just to you, but I think one of the things I'm going to ask you to do is to get that figure as of year-end last year or some date that is current that would indicate to us how much money is being, in effect, protected by this insurance fund.

I say that because you can burn through these insurance funds awfully quickly. Let's hope that doesn't happen. This is talking about contingency possibilities and that's why we have the fund there, to deal with contingencies. But to burn through a billion dollars today, I would gather with the broker-dealers doesn't necessarily take a long time. I would think you could have one major failure and it could take that fund and exhaust it.

That's not to say it's going to happen. But I want to understand better how many dollars are being protected by this fund.

Also, I would like to know, and I would like you to provide for us if you don't have it today, the method in which the insurance system is carried out. In other words, am I to understand how are the fees assigned? Are they assigned on the basis of the volume that an individual broker-dealer does, where they pay based on their size, where they kick in more than the small player? Is there a set fee and an add-on above that level? What can you tell us about the fee structure?

Mr. **Pfau**. It's a percentage of revenues, and it's the same throughout the industry.

The **Chairman**. Revenues as defined by what? Profit for the last year, or just sheer volume of activity?

Mr. **Pfau**. Volume of gross income. I think, though I'm not totally sure.

The **Chairman**. We need to pin that down because, obviously, the volume of activity doesn't necessarily relate to how much one outfit is holding in the way of securities and customer names versus the guy down the street who may have the same volume and own half as much. I don't know what the variations look like within the industry.

The reason I'm concerned about it is that, over the years, particularly during the 1980's, we took a lot of policy actions and set an investment environment where there was a lot of, I think, pumping up of values to levels that were unsustainable. We're seeing that now in real estate. We're seeing the bank failures and other things as an example of that. We certainly saw it at the savings and loan associations. We also saw it in the major stock market crash where the market went down over 500 points in 1 day. If it can happen once, it can happen again, circuit breakers or not, and let's hope we don't experience that.

We would like to think that we could manage our affairs in a way that would not cause that to happen. But you've been in the business long enough to know the markets have a mind of their own and if corrections come or major factors come into play, things can change in a hurry. And we've seen some major firms go out of business, and I'm talking about securities firms.

If a firm is going to go out of business, whether it be a bank or an S&L or a securities firm, and the problem is identified and you can move in where there is still capital available in the broker dealer to cover the outstanding liabilities, you're going to have to shut the place down because you want to be able to be sure you've got enough money to pay people off.

If things were to ever get disorderly where you had a lot of points and you didn't move quickly enough, you can see the problem coming. At least in my mind, in theory, it wouldn't take very long to chew up a billion dollars.

But that, again, relates to what the outstanding liabilities are. If there are a trillion dollars, then I would like to think of the billion in relation to the trillion. If it's $500 billion or $200 billion or $100 billion, then obviously the ratios start to change. But you will get that for me and send that to me?

Mr. **Pfau**. Yes, sir.

I'd just like to point out to you that the three major firms that did go out of business in the last 18 months went out without any cost to the SIPC fund. They were absorbed by other firms and there has been no call on the SIPC fund at all.

It's important to recognize that securities firms are following all of the rules and regulations, have in possession or control their customers' property, and should be able to return it to them without resort to the SIPC program. And that's what happened in those cases.

Under present assessment provisions, SIPC is receiving annual assessments of about $60 to $65 million. In addition, SIPC's interest income is approximately $35 million per year. And this has resulted in the recent growth of the SIPC fund. SIPC's net advances to trustees, these are in the troubled firms over the last 20 years, have approximated $225 million. That averages less than $12 million a year.

Last, I think it's worth noting that Chairman Breeden recently testified before the Senate Banking Committee and stated that the SIPC fund appears to be well capitalized in comparison with any reasonably foreseeable broker-dealer failures.

The **Chairman**. Let me just stop you there. I don't assume he's not correct and I hope he is correct. We got that same certification from the regulators over the years on the savings and loan situation and then we had it on the bank situation, and we are taking a look at the insurance industry.

So we have had some unpleasant surprises so those certifications may or may not mean something. But let me stop you there because there are a couple of other things that I want to get at and, if you don't have them, I'll want you to, if you would, help get them for me.

If you've got a broker-dealer that's selling shares of the money market mutual fund, my understanding is—and you tell me if I'm right or wrong—that the money market mutual fund, because it doesn't carry a certificate with it, is not insured?

Mr. **Pfau**. It's a security, so it is insured.

The **Chairman**. So it is insured?

Mr. **Pfau**. Yes.

The **Chairman**. Would any dealer that sells a money market mutual fund and have that based on the SIPC insurance fund, is that what backs that?

Mr. PFAU. Yes, sir.

The CHAIRMAN. So all the money out there in the money market mutual funds, in addition to discrete certificates in a given corporation, General Motors or of a Government bond that's held in a customer account and so forth, your testimony to us is that all those items stand equally in terms of the fact that they are insured and that anybody with money in a money market mutual fund——

Mr. PFAU. Yes. There are some fine possibilities on that. Where the bank holds the money market fund for the broker, it comes under the bank's insurance. But that's the only exception I know of at this time.

The CHAIRMAN. So, from reading in the newspapers, the amount of money in money market mutual funds is a big number and all of that activity rests on the SIPC fund?

Mr. PFAU. It's very unlikely that that money would not be there in the account or those securities, at least, in the account when the broker fails in business.

The CHAIRMAN. That's been our experience. But let me just give you a hypothetical. If we were to have a real market crash—I'm not forecasting one and I sure don't want to see one—and values were cut in half over the period of a week's period of time, what happens, my experience has been, is that when you get a market crash it's like a cable breaking in an elevator car. The elevator car starts coming down from the 20th floor and, to the person who would like to get out on the 19th floor or the 18th floor or the 17th floor who may have bought something at 20, the elevator doesn't necessarily stop there. The elevator doesn't stop until it decides to stop. It goes all the way to the basement. And you know, that's when you get out if you can get out even then.

So value can disappear very rapidly in a market and we saw that happen on one occasion not all that long ago. And, of course, if you had a windfall disappearance of value, then if people want their money you obviously go first to the capital cushion within a given company.

In other words, you can name a company, but any listed company that's a broker-dealer, if somebody comes in and asks for their money, presumably they've used securities and bonds and so forth of somebody just in the normal course of their activity. They find themselves in the situation where they've got more claims than they have cash on hand. So presumably they go first to their own capital.

If they are part of a holding company, like Drexel Burnham, they go to a parent to try to get capital. And if they exhaust capital at those two levels, then they come to the SIPC fund. Is that more or less what will happen?

Mr. PFAU. Yes. But I caution that you don't confuse the stock dropping from the 20th floor to the basement with something that we're insuring.

We're not insuring market fluctuations.

The CHAIRMAN. I understand you're not insuring market fluctuations, but securities and bonds are used often times for customer accounts in the normal course of the activity of a broker-dealer and if anybody gets trapped off base and there is not enough money to honor accounts where people have cash balances, say, you've got a problem.

The question is, who pays? And if you ever get that situation, the payment first of all comes out of the capital of the broker-dealer. Then, if that's exhausted, you come to the insurance fund.

Is that it?

Mr. PFAU. Yes, sir. You're right. It needs to be emphasized that the insurance fund is not protecting somebody's market value against changes in market value. You take your chances and you get whatever the result is.

The CHAIRMAN. But I want to know more clearly what the amount of activity is out there today that is resting on this insurance system. We need to have a better fix on that and I have have asked you for that. You said you would get that for me.

Mr. PFAU. We would be delighted to provide that for you, including a copy of the Deloitte & Touche report which I think deals with every aspect of this.

The CHAIRMAN. As I understand it, SIPC does not examine the broker-dealers who hold SIPC-protected customer assets. Instead, you rely on the examination performed by the SEC.

I am wondering, would there be any wisdom in having SIPC, as the insurer, actually conduct some of its own examinations of these broker-dealers?

Mr. PFAU. Well, I can't really answer that because I don't really know enough about it at this point, Chairman Riegle. But I do believe that in some ways the SEC is very much a part of our operation. In fact, they are sort of our mother. And we think they do an excellent job with their work.

The CHAIRMAN. They do, up to the point that they can cover the whole waterfront. It's a big waterfront.

I've just seen one case recently where the SEC came in and certified some securities for sale that turned out to be worthless. So they don't bat 1.000, although I have great confidence in Richard Breeden, who is over there now.

We may send you some other questions for the record. But I think that covers what I wanted to raise with you today and I appreciate your willingness to serve and appreciate your answers.

Mr. PFAU. Thank you very much.

The CHAIRMAN. The committee stands in recess.

[Whereupon, at 12:15 p.m., the committee was adjourned.]

[Response to written questions and biographical sketch of nominees and additional material supplied for the record follow:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSER FROM

Jim Tarro

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-3000

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

Q. 1. As a member of this committee interested in our nation's housing programs and as Chairman of the Budget Committee, I am terribly concerned about HUD's management. One clear example of how far HUD needs to come is its inability to provide the Congress with accurate data on the number of units expiring each year in the Section 8 existing housing program and the amount of funding needed for Section 8 amendments. We need to know how much to budget for these activities on a long-term basis. Yet, for at least the fourth time in 2 years, HUD has again upped its estimate of the expiring subsidy needs. HUD has requested a $155 million supplemental for expiring subsidies.

Q. 1. (a.) What are the other potential funding "timebombs" that HUD isn't telling us about?

A. 1. (a.) We are not aware of any current or future unforeseen funding needs. In our 1992 budget to the Congress, we attempted to disclose fully our budgetary requirements, based on the best available information.

Q. 1. (b.) What are the current 5-year estimates for expiring subsidy needs and assisted housing amendments?

A. 1. (b.)

Section 8 Expiring Subsidy Contract Requirements:

FY 1991	$7,890,800,000
FY 1992	7,024,589,000
FY 1993	5,772,804,000
FY 1994	5,272,025,000
FY 1995	7,046,680,000

The FY 1991 estimate, which includes a proposed supplemental of $155.8 million, is based on a comprehensive Regional survey that was completed in December 1990. The survey covered every market area in the country. Consequently, the estimate is based on the most complete information compiled to date in the program.

For FY 1992 and future years, the estimates represent the baseline amounts calculated pursuant to the Omnibus Budget Reconciliation Act of 1990. The manner of calculation, as provided in the Act, takes into account the number of units expected to expire each year and costs as adjusted for inflation.

Section 8 Amendments

FY 1991	$1,880,451,000
FY 1992	2,499,340,000
FY 1993	2,586,000,000
FY 1994	2,472,000,000
FY 1995	1,780,000,000

Beginning with the 1992 Budget, the Department is proposing a number of modifications. We are increasing the front-end funding of subsidy contracts and shortening the contracts to a more manageable 5-year term in order to eliminate future amendment needs. These steps will permit better disclosure of the full cost associated with subsidized housing contracts.

Q. 1. (c.) What kinds of commitments will you make to us today with respect to improving the quality of the information we get?

A. 1. (c.) The Department shares your concern about the quality of the data included in its budget submissions. HUD managers, who also need accurate data to do their jobs, have been aware of the need to improve the Department's financial and management systems. Many of HUD's systems do not include the kinds of information needed, nor are they integrated, for effective management. As a result, reconciliations have to be done manually. In some cases, the same data are entered separately into two different systems, permitting inconsistencies to occur. In HUD's reports to Congress on compliance with the Federal Managers' Financial Integrity Act, Secretary Kemp has identified HUD's poor data systems as a material weakness. In addition, the Office of Management and Budget has identified HUD's core accounting and program data systems as a "High Risk Area."

One of the Secretary's highest management priorities is the correction of these deficiencies; i.e., to provide HUD with a totally integrated financial management system. Last year, HUD retained Price Waterhouse to develop a detailed multi-year plan to improve and integrate HUD's 77 financial and management systems. Their report, due next month, will provide a roadmap and resource estimates for HUD to use in revamping its financial and management systems. The Secretary has established a Chief Financial Officer and five program Comptrollers in Housing, Community Planning and Development, Public and Indian Housing, Administration, and GNMA, and has charged them with integrating HUD's financial and management systems and ensuring that they capture the right kind of information to support the budget, to enable sound program management, and to eliminate material weaknesses. These efforts are at the top of the priority list for the use of HUD's ADP development budget.

Problems in HUD's financial and management systems were created through years of neglect, and it will take time to correct them all. I can assure you that I will pursue the improvement of data quality as a top priority, and I can assure you that you will see considerable improvement over time.

Q. 2. Anecdotal evidence suggests that HUD has experienced extremely high turnover rates of its senior career staff over the last 10 years. If borne out by the data, this would serve as another example of the severe management problems that HUD faces.

Q. 2. (a.) Is this a cause of concern to HUD management?

A. 2. (a.) Staffing levels at HUD went from 17,456 in 1980 to 11,998 in 1986, a 31.3% reduction. During 1982 and 1983, HUD went through two major "reductions-in-force." While the workforce was reduced by 31.3% during this period, HUD's attrition rate was even higher with an estimated 64% turnover of staff. While HUD was cutting staff during the period of 1980 to 1986, it was also reducing its training budget, from $4.9 million to $3.3 million, a 33% reduction. HUD's staffing levels have gone from 12,619 in 1987 to 13,440 this fiscal year and the training budget has gone from $3.6 million in 1987 to $5.4 million this year. Most of these increases have occurred since Secretary Kemp's arrival at HUD.

HUD's current leadership has been concerned about the quality of the workforce and has taken a number of steps to rebuild it. During the past 2 years, 480 program technical courses were conducted and attended by almost 12,000 participants. This fiscal year we'll train another 6,700 participants in various program technical courses. But more important, HUD has refocused its training efforts. Priority is now being given to implementing the Secretary's initiatives, correcting material weaknesses, resolving audits, and training in programs involving high financial risk. Also, over 80% of the training budget supports training of Field employees.

HUD has recently established a Management Intern Program and selected 62 highly qualified individuals of diverse culture, ethnicity, and gender, mostly from the nation's best universities, for this 2-year management developmental program. This program is designed to provide HUD with its future senior management leaders.

I am a firm believer in Total Quality Management (TQM), and we are in the early stage of implementing a pilot program within Administration. I am looking forward to implementing TQM throughout the Department in an effort to improve the effectiveness and cost of the programs managed by HUD.

Q. 2. (b.) I notice from your impressive resume that you have served in numerous types of organizations and different administrative positions. What can you tell us about the turnover experience at HUD relative to those at the other places you have worked?

A. 2. (b.) HUD experienced a staff reduction of 31.3% during a 6-year period with an attrition rate of an estimated 64%. During the past 3 years, at the top three grade levels, HUD has experienced an average turnover rate of 5.7%. Comparatively, my previous agency, the Department of Energy, experienced an average of 6.8% at the same grade levels during the past 3 years. In nearly three decades of working in the private aerospace sector, I have from time to time faced tremendous downsizing. Although I believe that some turnover is endemic to the Federal Government, the most important thing management can do is ensure that neither morale nor productivity is materially affected by turnover in key positions. Secretary Kemp's hands-on style has given the Department a greater sense of purpose, which has benefited morale. In addition, as I indicated in my testimony and in responses to other questions, the Secretary has directed that steps be taken to ensure that HUD's workforce is better trained than ever and that management is better able to respond to the challenges it faces.

Q. 2. (c.) Could you also please provide for the record the turnover experience (including grades and percentages) at the department over the last ten years, by year?

A. 2. (c.) HUD abolished its payroll system in April 1988 and contracted with the National Finance Center of the Department of Agriculture to do its payroll. Consequently, historical data by various grade levels is not available for most years prior to 1988. The turnover rates below are for the top three grade levels and include career employees only. For comparison purposes, the Office of Personnel Management (OPM) reports that Governmentwide turnover rate among Senior Executive Service (SES) employees has averaged 9.7% during 1979 through 1989. HUD's average equals 8.1% for the past 5 years.

PERCENT OF TURNOVER IN TOP 3 MANAGEMENT OR MANAGERIAL GRADE LEVELS

Fiscal Year	GM-14	%	GM-15	%	SES	%
1986	*	-	*	-	5	6.3
1987	*	-	*	-	5	6.4
1988	22	4.4	32	7.2	4	4.9
1989	42	8.2	11	2.5	6	7.6
1990	23	4.4	24	5.7	12	15.2

Note: Numbers under the grade columns represent total number of employees who left HUD at each grade level. Numbers under the % columns represent the turnover rate of all employees at that grade level.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSER FROM
ARTHUR HILL

Responses to Questions From Senator Sasser:

Q.1. As Assistant Secretary for Housing, you will be responsible for managing the low-income housing programs under Section 8. As such, I would like your comments on one particular feature of this year's HUD budget. I am concerned that HUD top management's focus on promoting a relatively small public housing homeownership program distracts it from the crucial task of managing a nearly-trillion dollar agency. Moreover, I believe that in practice the program seems overly expensive, and in concept the HOPE program seems flawed. GAO has reported, for example, that to transfer the Kenilworth-Parkside project here in Washington costs $73,086 per unit. According to my data, the average public housing tenant's monthly income is less than $600 a month while the average homeowner's operating costs are $300 per month. With housing costs this high, there would be very little left over in a poor family's household budget for other necessities--never mind resources for emergency housing needs like a leaky roof or a faulty furnace.

Q.1a. With the kind of money spent so far on homeownership programs, couldn't we house two poor families with vouchers? Or couldn't we give the families the money and the choice to buy a home in a neighborhood of their choosing? Couldn't the resources proposed for HOPE be more efficiently spent to reduce outstanding housing needs?

A.1a. In responding to your question I will address your concerns as they relate to our multifamily housing stock. The benefits of money spent in empowering the poor and creating pride among the residents of assisted housing are intangible. As homeowners, residents would have an increased stake in the well-being, safety, and soundness of their neighborhood and community that would result ultimately in an expansion of the supply of decent, safe and affordable housing by preserving existed housing. The results flow back to HUD in lower maintenance cost over the years, an extended useful life of affordable housing and an improved environment for the residents.

The comparison of the cost of a currently renovated unit to the annual costs of a Section 8 certificate or voucher is not really valid. It is always cheaper to pay one year's cost as opposed to the present value of several years' costs. The Department's HOPE initiatives targeted to the multifamily housing stock places a cost cap for acquisition, rehabilitation, operating subsidies and technical assistance to approximately $53,000 per unit. This $53,000 buys us a renovated unit usable for several years, a resident with a greater interest in maintaining that unit, lower cost over the life of the unit and a longer life of the unit. While the annual cost of one Section 8 certificate or voucher, gives us housing without the intangibles for one year.

You have asked whether the resources devoted to the HOPE program could be more efficiently spent to reduce outstanding housing needs. I believe that the renovation of the affordable housing stock is such a need. Satisfying our nation's many diverse housing needs is a never ending process of design, planning, financing, construction and maintenance. We are faced with an aging stock of buildings, some in quite poor shape from their age, mismanagement and abuse. The money spent to refurbish them for another 20 to 40 years of use is required whether we convert them to resident ownership or not. But we have seen that in some of those buildings ownership by profit-oriented businesses and non-profit community organizations has not worked. At the same time, we have found that in similar instances the conversion to resident ownership does work.

As indicated above, the cost cap per unit will be approximately $53,000. We fully expect many projects to have per unit costs substantially lower than this cap. What is not evident in this figure are the aforementioned intangible benefits to the future homeowners and to society at large. Not only are we providing homeownership opportunities, but through counseling and training and economic development activities, we are also ensuring that people move up the economic ladder.

Q.1b. With the financial requirements of homeownership, it seems that only the better off public housing tenants will have a chance at success. Doesn't this mean that the inventory available to the poorest of the poor will shrink?

A.1b. I will respond to this question as it relates to the stock of affordable assisted housing. Let me stress the philosophical reason for promoting homeownership. We have seen world wide the movement toward free societies with a capitalistic economic base--witness Eastern Europe and Nicaragua. The right to own and control the land on which you live is basic to that system. We believe that those who own and control their environment will ensure that it is the best that it can possibly be.

Under HOPE II the poorest of the poor will be given the opportunity to become successful homeowners because HOPE Grants provide (1) operating subsidy assistance on behalf of low-income tenants who wish to become homeowners, (2) a promissory note to assist in financing the purchase of a unit and (3) counseling and self-sufficiency programs to help people move up the economic ladder.

We do not believe that the inventory of housing available to the poorest of the poor will shrink because of the HOPE program. Given the amount authorized in the Fiscal Year 1992 Budget and the dollar limitation on HOPE Grants, we anticipate funding between 5700 and 9000 units under this program. Furthermore, in order for us to approve HOPE Grants HUD will require that the existing affordable housing stock will not be appreciably diminished.

To assist and protect the poorest, we must set standards for housing and assure that on an ongoing basis, buildings are renovated to that standard. HOPE does exactly that.

Q.2. Last year, in the Omnibus Budget and Reconciliation Act, we included numerous reforms to the FHA single family program. We increased premiums and required a greater downpayment by purchasers. I supported undertaking reforms. I have long been a supporter of the FHA programs as the key Federal program for aiding first-time homebuyers. I felt that reforms were needed to shore up the fund and to ensure the fund's long-time financial and political viability. I did not, however, fully embrace the compromise that we finally enacted, however, I worried that it went too far.

a. Could you please tell us HUD's best estimate of how many potential homebuyers will be turned away by these reforms?

b. To what extent will the new requirements mean that FHA will be less able to serve low- and moderate-income buyers?

A.2. The Omnibus Budget Reconciliation Act passed into law certain reform provisions for FHA that are designed to strengthen the Mutual Mortgage Insurance Fund and allow FHA to operate on a sound basis into the future. These reforms were critical to ensuring that FHA is able to continue in its role of assisting low- and moderate-income homebuyers, and particularly first-time homebuyers trying to enter the homeownership market. Estimates of the impact of higher downpayment requirements on FHA demand have ranged from the Department's projection of 15,000 borrowers affected annually to the trade association's projection of over 300,000 per year. High estimates of the impact generally assume that a significant number of potential FHA borrowers will be permanently precluded from home ownership because of the higher cash requirements.

Typically, borrowers might need an additional $500-$1,000 in cash at closing under the new rules. While many FHA borrowers would be able to come up with the additional funds immediately, others would not. Yet, the higher estimates of the law's impact generally assume that a significant portion of potential FHA borrowers will be permanently precluded from home ownership because of the higher cash requirements.

HUD's analysis concludes that the impact of the legislation will be minor and temporary. Put another way, once families know of the higher downpayment requirements, they will adjust their spending and savings patterns to accumulate the necessary funds. A motivated buyer will be quite likely to be able to save the few hundred dollars more now required. Those who defer purchases will be able to enter the market at a later date.

The generally expressed concern over charging risk-based premiums is that the higher premiums would fall primarily upon lower income borrowers. To the contrary, the data reveals that lower income borrowers do not disproportionately take out high loan-to-value loans. In 1989, FHA's median loan-to-value ratio was 93.3 percent; this figure was about the same for all income groups. Thus, risked-based premiums will not necessarily be concentrated on FHA's lower income borrowers.

Q.3. The Omnibus Budget and Reconciliation Act also enacted an auction system to handle the assignment of FHA-insured multifamily mortgages under Section 221(g)(4). The statute consciously included some strict deadlines in order that we could realize the savings from this program in a timely manner.

a. What is the status of the implementation of this legislation?

b. How many auctions have been held? What is your assessment of the success of this program so far?

A.3. In order to fully implement the 221(g)(4) legislation, both auction procedures and regulations must be prepared. The auction procedures have been drafted and were submitted to OMB in accordance with the Paperwork Reduction Act on February 28. OMB has up to ninety days to review. Upon gaining approval from OMB to proceed, HUD will issue auction instructions to the applicable mortgagees. Once HUD receives all necessary information, the first auction will be conducted within a two to six month period in accordance with the Cranston-Gonzalez National Affordable Housing Act. Should OMB approve the auction procedures at the latter part of the ninety days period, May 28, we anticipate that the first auction will be held no earlier than September 1, 1991 and no later than January 1, 1992. Of course, these dates will be adjusted upward should HUD receive OMB's approval prior to May 28.

The target dates for the publication of proposed and final regulations are June 30, 1991 and January 31, 1992, respectively.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ROTH FROM

ARTHUR HILL

Responses to Questions from Senator Roth:

Q.1. Mr. Hill, I would be interested in learning if the Department has established a definite timetable for the regulations to implement the "subsidy layering" of the HUD reform act.

A.1. The "Subsidy Layering" guidelines are currently at OMB for review. It is expected that OMB will complete its review of these guidelines in the coming weeks. Once OMB has cleared these guidelines they will be published. The Section 102 HUD Reform regulations which necessitated the development of these guidelines is also at OMB for review. The Department expects the publication of these regulation concurrent with the guidelines. The Department is presently utilizing these guidelines to review cases coupling Low Income Housing Tax Credits with HUD assistance.

Q.2. Would you be able to provide us with information as to the number of project applications which are pending at the Department awaiting review under the "subsidy layering" provision?

A.2. Approximately 25 cases are currently being initially reviewed. Approximately 10 cases, in addition to the 25 mentioned above, have been initially reviewed and are awaiting final review and concurrence. Many of the cases when submitted required additional information which delayed completion of their review.

Q.3. Could you advise us as to whether any projects utilizing more than one subsidy have received certification from the Department following the enactment of the HUD Reform measure?

A.3. The Office of Housing has approved over 50 Low Income Housing Tax Credit cases. Of those, approximately 20 involved Transfer of Physical Assets (sale of property) with no additional HUD assistance. The bulk of these reviews were completed in the last quarter of 1990. In addition to these approvals, HUD has rejected approximately 10 cases. Approximately half of the cases reviewed required some adjustment to the level of HUD assistance.

Q.4. In July I first contacted the Department at the request of the New Castle County Government with respect to a project know as the Maryland Park Apartments. This project has been put together with many sources of financing, including low income housing tax credits, project based section 8 assistance, and tax exempt bond financing so it falls under the HUD reform provisions. All attempts to secure appropriate review and certification for this project under the HUD reform provisions have been unsuccessful. My understanding is that this is not an isolated problem. I am interested in learning what the holdup has been in the review of this project and when we could expect a final answer from the Department.

A.4. Over the course of this past year the Department has undertaken the sensitive and demanding challenge of implementing the HUD Reform Act and in part establishing equitable standards to assess the appropriate level of HUD assistance when it is layered with other government assistance. To this end the Department has now established guidelines to meet this requirement and will quickly render decisions in all pending cases. The Maryland Park Apartments as you recognize is an example of multiple subsidies being combined to achieve the development of a housing project. In this case the Department has been asked to allow Project Based Section 8 rental assistance in combination with Tax Credits and Tax exempt bond financing. The Department must assure that its assistance is allocated appropriately and that the compensation to the parties involved, given the various funding sources and the complexities of theses transactions, is not in excess of the Departments guidelines. The review of this project has been completed and the results of this analysis will be transmitted to the project sponsor within the next two weeks.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM

Cecil B. Thompson

CYGNUS

CYGNUS CORPORATION

February 14, 1991

The Honorable Donald W. Riegle, Jr.
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
SD-534 Dirksen Senate Office Building
Washington, DC 20510-6075

Dear Mr. Chairman:

I wish to thank you for the very cordial reception you so graciously extended to me and my family during my confirmation hearings before your Committee on February 8, 1991. I appreciated the opportunity to address you and the Members, and found the process and your questions and remarks quite stimulating and thought provoking.

I also thank you for the courtesy shown to Senator Warner and to Senator Robb who appeared on my behalf.

As requested, I have enclosed my responses to the written questions presented to me at the conclusion of my hearing. I shall be pleased to provide any additional information you require from me to complete the confirmation hearing process.

Again, thank you very much.

Sincerely,

Cecil B. Thompson
Nominee-Board of Directors
Export-Import Bank of the United States

805 FIFTEENTH STREET, N.W. SUITE 401 WASHINGTON, D.C. 20005 TELEPHONE (202) 371-9251

Responses to Written Questions Submitted to Cecil B. Thompson, Eximbank Board Nominee.

Strengthening Commercial Bank Involvement in Financing Exports

Q.2 In December of 1990, the Institute of International Finance, an organization made up of commercial banks involved in international lending issued a report about today's sorry state of trade financing. In its report the Institute urged that "a viable way be found to reengage banks in medium and long-term trade and project financing for middle-income countries." The Institute called for "expanded use of reinsurance and cofinancing between export credit agencies, private insurance companies and multilateral institutions."

Do you agree that there is a need to get commercial banks more active in financing trade? If so what are your ideas for achieving that objective?

A.2 The decline in commercial bank involvement in US export trade financing is the consequence of several factors. One of those of course is the impact of the losses suffered on Third World debt defaults. Another is the relative profitability of trade financing compared to other revenue producing activities. Yet another probably derives from concerns that increased regulatory scrutiny might result in trade loans being treated as less secure than other types of loans and requiring higher loan-loss reserves.

These factors call for different types of responses. There is reason to be cautiously optimistic regarding future Third World debt. The economic and commercial environment, and financial attitudes and practices that brought about those debts and the resulting defaults have changed, and to some extent have been corrected. Fiscal and monetary policies and practices in Third World economies have improved with IMF and other pressures. There is reason to be cautiously optimistic that such losses will not result again, if wiser and more conservative policies and practices continue to be adopted and followed.

In addition, virtually all of the banks adversely affected by the Third World debt losses have cleared up their loan portfolios and gotten rid of or written-off the losses. For the most part, reserves are well in excess of requirements and more prudent loan practices and policies have been adopted.

Notwithstanding the improved general environment, export trade financing is not high on the loan list of most commercial bankers. Their enthusiasm is effectively constrained by its relative profitability. To the extent its lower profitability is the result of the higher-cost of trade financing, refined procedures should be adopted to streamline the process and reduce financing costs.

In this regard, the Export-Import Bank's "bundling" (or fee-based service) program for commercial banks, apparently has proved successful in Mexico. I understand that the Export-Import Bank is considering this approach for other countries.

I believe consideration also should be given to developing consortia of US banks to specialize in trade financing for particular types of goods and export markets. This should include establishing small-business commercial banks specializing in export trade. These could enhance familiarity with certain types of trade and markets, thereby reducing some of the uncertainties and lowering the associated costs of export trade financing.

Similarly, cooperative arrangements between US small businesses in particular products and services should be examined to see if joint export marketing and related activities are practicable and profitable. Combined trade finance and product/service export consortia for small businesses also should be explored.

Increasingly vigorous competition from other major industrialized countries together with the inherent risks and uncertainties prevailing in export trade, will continue to limit the relative attractiveness of this sector to US commercial banks in general. It must be expected therefore, that efforts to reengage the commercial banking sector in export trade financing will continue to be difficult and challenging. As a result, this issue will continue to require a high priority and the continued dedicated efforts of the senior officers of the Export-Import Bank.

I understand that the Chairman and Vice-Chairman of the Export-Import Bank consider this to be a critical and high priority issue, and have been working diligently to bring broad visibility and attention to focus on this issue. To the extent commercial bank reluctance to participate in export trade financing is the result of a loss of confidence in the export sector, then repeated approaches to the commercial banking sector such as those of the Chairman and Vice-Chairman does help. If confirmed, I intend to fully support those efforts.

Small Business Exports

Q.3a In my opening statement I noted that the Bank's Charter requires that one director be given the responsibility of getting small businesses more active in exporting. You, if confirmed, will assume that responsibility. What ideas do you have for financing exports of small businesses and for making them more aware of the opportunities in export markets?

A.3a. I believe the Export-Import Bank is playing an effective role in expanding the involvement of small and medium-sized businesses in the US commercial export sector. The statistics cited by the Export-Import Bank in this regard are encouraging in terms of the increasing number of small and medium-sized US businesses involved in US export trade today.

That encouraging experience is sobered however, when viewed in the context of the number of small and medium-sized US businesses that could be involved in export trade. There is very good news in terms of where we are compared to where we were; but we still have a long way to go to make substantial progress considering the potential. How to accomplish that is not obvious.

Clearly, export expansion is a major component of the economic growth objectives and policies of this Administration and I believe also this Congress. Commerce Secretary Mosbacher's National Export Initiative is a prime example. John Macomber, President of the Export-Import Bank, is playing a key role in this ambitious program as are the principal executive officers of several other agencies.

The Initiative calls for visits to approximately 25 small cities throughout the US - especially in the midwest - over the next seven months, to present and explain the many federal programs dedicated to assisting small and medium-sized US business in expanding their export sales. I believe the effort has the direct support of the President. In this regard, the level and scope of official representation and support, as well as the plans for followup, certainly are unique if not unprecedented.

I believe such efforts are essential to increase significantly the participation of small and medium-sized US businesses in export trade. During my years working abroad, I frequently heard comments from representatives of foreign governments and businesses about the apparent distant -- if not adversarial -- relationship between US business and government. They were puzzled but pleased with this perception; and at times there seemed to be evidence of such a relationship in the case of the US. Certainly that was not the case with other governments and their businesses. The effects of the differences in those relationships were clear and important.

There is demonstrable evidence today that this unsupportive relationship between US government and business - if it existed - is changing. This is very important. But it will take more than a change in attitudes to have an impact, especially for the small and medium-sized US businesses, because they face many obstacles unique to export trade, and therefore unfamiliar to most small businesses.

One of the obstacles is the general lack of knowledge about export opportunities and financing procedures on the part of this segment of the US commercial sector. Secretary Mosbacher's Initiative and other efforts such as the Export-Import Bank's innovative City/State program certainly go a long way toward addressing this need. Another problem uniquely facing the small and medium-sized US business is the financing needed to pursue an export opportunity. The Export-Import Bank's Working Capital Guarantee Program is very useful in meting this need.

The traditional attitude toward small business in the US commercial banking sector also has been and still is a formidable obstacle to the expansion of US small businesses into the export sector. Trade financing is not as attractive an undertaking for commercial bankers as it once was; and even when it was more attractive, small and medium-sized US exporters were not of major interest. This obstacle will have to be diminished or loan guarantees and other techniques can't be effective in expanding US small business participation in commercial export trade.

I know there is a huge untapped potential in the US small business sector - and there are large and growing requirements and opportunities in the export trade sector. We must take advantage of both. In this regard, I believe US efforts to support economic development and enhance privatization in eastern and central europe should actively seek to include US small and medium-sized businesses.

The commercial infrastructure and institutions of many of those countries are very immature. Establishing and nurturing that infrastructure and institutional development involves many of the types of problems and obstacles inherent and common to US small businesses. The knowledge, information, and experience required is more typical of the US small business than the large corporation. Appropriately supported, I believe US small businesses could and would provide that type of assistance directly through commercial relationships with entrepreneurs in those countries.

Where the problem is trade financing, the Export-Import Bank is needed and has ably demonstrated what it can do. But US small businesses face many other obstacles. Many can't cover the administrative and related costs of an export opportunity on an individual company or individual sale basis; they probably could if there were some way of pooling the administrative and financial resources required, and therefore spreading the overhead costs of preparing and making the deal(s).

The point is that many of the problems are encountered long before trade financing becomes the primary concern, and some problems remain even after the issue of trade financing has been addressed. For this reason, I believe we will need innovative, imaginative, and perhaps even provocative non-traditional approaches, if we are to significantly increase participation by the small and medium-sized US business in commercial export trade.

Q.3b Have you met with the Small Business Administration and people responsible for export promotion at the Commerce Department to find out how the Bank can better coordinate its responsibilities relating to small business with their efforts?

A.3b Officials responsible for small business export promotion within the Small Business Administration and the Commerce Department have been identified. Appointments with these and other appropriate officials will be requested as soon as possible subsequent to my assuming office.

Strategic Exports

Q.5 In 1989 the Center for Strategic and International Studies published a report on U.S. export competitiveness in developing countries by Earnest Preeg. That report noted that our trade competitors are concentrating their export subsidy programs on strategic high technology industries important for industrial leadership and suggested we do the same. What are your views on such a recommendation?

A.5 I believe the US should consider adopting a strategy of targeted export markets. There are of course advantages and disadvantages to such a strategy. Long-term internal market distortions can result from this approach and must be given proper consideration and monitored. Within those considerations however, there are merits to a targeted strategy for export trade.

Despite US efforts, the international export sector continues to be characterized by tied-aid, concessionary-financing, and other market-distorting practices on the part of our major trading partners. These must be expected to continue because they derive from strong historical and new commercial and political pressures: the economic restructuring planned for Europe in 1992; the costs of incorporating the emerging economies of eastern europe into the economies of western europe; the need to finance increasing energy and other raw material requirements as developed economies expand and those of the Third World continue to develop and mature; and increased foreign competition within key commercial sectors of the industrialized countries.

The US has become a debtor nation. It will need to expand its export sector in order to balance its trade and continue to meet its growing domestic requirements and retain high valued-added production and related employment. The US faces an increasingly competitive if not hostile export trade environment. The resources available for supporting the US export sector are of course limited and growing increasingly scarce given competing requirements. Every effort should be made therefore, to maximize the impact of those resources. Targeting these resources and our efforts in specialized export markets offers a viable approach and should be explored.

The target areas should not however, be determined on the basis of political-merit or other unfounded desires to develop production and trade capabilities in areas in which the US has no comparative advantage. Instead they should be derived from those goods and services in which the US has a high comparative-advantage and can expect a high valued return.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSER FROM

Cecil B. Thompson

Mr. Thompson, I would like to know your position on how the resources of the Export-Import Bank should be directed.

As you know, the President's budget for fiscal year 1992 proposes a pilot program using $1 billion in Export-Import Bank guarantees to support the sale of military equipment abroad.

Some members of the U.S. export community are concerned about this possibility. They are concerned abut Exim's ability to support the sale of U.S. commercial goods, particularly now with the increasing demands from Eastern Europe.

In a letter to the Committee on this issue last year, the Chairman of the Exim Bank stated that "the Bank operates with an extremely small staff and any requirement to establish a program to finance military sales could divert personnel from commercial export financing."

Q.a) Mr. Thompson, what do you think of the President's proposal?

A.a As I have stated previously, in principal I don't believe that any legitimate product or service should be excluded from consideration for export support. I do believe however, that civilian commercial exports should have some primacy in allocating the resources of the Export Import Bank.

Q.b Should we be concerned that the Exim Bank's ability to meet commercial export needs would be diminished by the President's pilot program?

A.b As I understand it, not all of the Export Import Bank credit guarantees have been committed. If so, then I do not at this time believe we need to be concerned that support of foreign military sales would jeopardize the capacity of the Export-Import Bank to support civilian commercial export. I believe we need to inform the debate with some actual experience, and the pilot program seems appropriately structured to provide that experience. I think any final decision regarding Export-Import Bank support to foreign military sales should await the outcome of that experience.

Q.c Might there be other potential "pilot programs" that would be more worthy of the Exim Bank's support both in terms of its guarantees and its administrative assistance?

A.c I do not know of any more worthy pilot programs that are not being undertaken or considered by the Export-Import Bank because of the pilot program in foreign military sales. I can well-imagine that pilot programs might warrant consideration in the area of small and medium sized businesses. But if so, I do not at this time believe these are or would be constrained because of the pilot program in foreign military sales.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SANFORD FROM

George F. Pfau

QUESTIONS FROM SENATOR TERRY SANFORD AND RESPONSES THERETO
BY
GEORGE H. PFAU, JR.

A number of cases have been brought to my attention which suggest that the SIPC may not be providing the protection to small investors that many in Congress and the public might believe is being provided. As a nominee to be a Director of SIPC, I would be interested in hearing your opinions regarding several of SIPC's interpretations and decisions.

Question #1 - I am particularly concerned that SIPC may be adopting an overly technical and narrow definition of a "customer" of a broker-dealer. It is my understanding that SIPC continues to define as "customers" only those persons who make their investment checks payable or deliver cash funds directly to the broker-dealer in the exact name of the broker-dealer. This may have the effect of precluding recovery by those who clearly entrusted funds to a broker-dealer for the purchase of securities, but who checks may have been made payable to the broker himself or an affiliated company of the broker-dealer. This definition has led SIPC to refuse compensation to many investors whose payments went to other than the broker dealers but were made precisely as the broker-dealer directed. How would you assess SIPC's interpretation of "customer"?

Answer #1 - I, of course, am not familiar with the case or the issue raised in this question, and I have no detailed information on the matter. However, I have spoken with the staff at SIPC concerning this issue.

I have been advised by the staff that SIPC's view is that a person, to be included in the definition of the term, "customer," must have entrusted cash or securities to the SIPC member. This does not necessarily require that a check be made payable in the exact name of the broker-dealer. Indeed, I am advised by SIPC that what is required is objective evidence of entrustment of property to the SIPC member. My understanding is that SIPC has in fact paid claims where checks were made payable to entities other than the broker-dealer, but where there also existed objective evidence - for example, confirmations or account statements from the broker-dealer showing the deposit with it of such funds. I am further advised by SIPC that its position on entrustment has been uniformly applied. Finally, the staff at SIPC advises me that the U. S. Court of Appeals for the Ninth Circuit has agreed with this interpretation. In its opinion the Court stated "This definition [of customer] embodies a common sense concept: An investor is entitled to compensation from the SIPC only if he has entrusted cash or securities to a broker-dealer who becomes insolvent; if an investor has not so entrusted cash or securities, he is not a customer and therefore not entitled to recover from the SIPC trust fund." (Emphasis added.)

I will keep in mind your interest and concern about this issue. I understand that the cases which have been brought to your attention and which involve this issue are currently pending before the U. S. Bankruptcy

Court in North Carolina. This issue is, therefore, being presented to that court by the litigants in that proceeding and will ultimately be resolved by that court. I believe that, since this matter is pending before a federal court, it would be inappropriate for me to comment further at this time.

Question #2 - I am also concerned that many small investors may be getting caught between two different regulations. As you know, many small investors use smaller broker-dealers to handle their accounts. Many of these smaller broker-dealers are "$5,000 broker-dealers" who, because of their relatively small capital requirements, are not permitted to operate as clearing brokers, but act only as introducing brokers. As introducing brokers, they are prohibited from holding customers' securities or customers' funds. They therefore cannot accept investment checks payable to their order.

However, SIPC interprets the statute governing their responsibilities as permitting payment only to those persons who make their investment checks payable to the broker-dealer or deliver cash funds that are actually deposited in the broker-dealer's account. The small investors using introducing brokers may therefore be caught if they make payments to their broker-dealer, only to find later that such payments are not covered by SIPC.

Do you see a contraction in these two interpretations? If so, how would you remedy this situation? If not, what remedy do you think is appropriate for those who may have deposited funds in good faith with a broker-dealer, usually at the clear direction of the broker-dealer, who later find out they are not technically a "customer" of the broker-dealer within the meaning of term as interpreted by SIPC?

Answer #2 - I do not see an incompatibility between the regulations governing the relationship between introducing broker-dealers and clearing broker-dealers, and SIPC's protection afforded to "customers" of SIPC-member broker-dealers. SIPC's protection exists for "customers" regardless of whether the broker is deemed to be an introducing or clearing broker.

The regulations that prohibit introducing brokers from holding cash or securities for customers are designed, in part, to limit the potential exposure to customers from the failure of those introducing brokers who do not have sufficient capital to "cover" all such deposits. The cash or securities are therefore required to be delivered to the clearing broker who has greater capital requirements. However, in the event that a "customer" did entrust cash or securities to the introducing broker, or the cash or securities were never transferred to the clearing broker, and the introducing broker failed prior to such transfer, then SIPC would protect that "customer."

Therefore, I see no limitation on the protection afforded to "customers" of SIPC members from the regulations governing the holding of such "customers'" securities or cash at clearing brokers rather than at introducing brokers. On the contrary, it is my understanding that if a "customer" entrusts his cash or securities to a SIPC member, and that member fails financially and must be liquidated pursuant to the provisions of the Securities Investor Protection Act ("SIPA"), then SIPC would provide protection to that "customer" regardless of whether the failed broker was an introducing broker or clearing broker.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:	TARRO (LAST)	JIM (FIRST)	EDWARD (OTHER)

Position to which nominated: Assistant Secretary for Administration

Date of nomination: January 11, 1991

Date of birth: 04-07-41 (DAY) (MONTH) (YEAR)

Place of birth: Los Angeles, California

Marital status: Married

Full name of spouse: Irene Mae Tarro

Name and ages of children:

Tamara R. Demko 28	Susan K. Lovell 27	Daniel J. Pester 29
Teri Gordon 34	Sheri Coppage 27	

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Azusa Pacific University	6/73 - 8/75	MA	8/75
California State Univ.	2/71 - 6/73	2 BAs	6/73
Pierce College	6/70 - 2/71	Transfered to Calif. State	
USN Guided Missile School	5/59 - 12/59	Voc. Cert.	12/59
Gardena High School	2/56 - 2/59	Diploma	2/59

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

United States Good Conduct Medal (Twice)

Dean's List @ Los Angeles Pierce College, 1971

Dean's List @ California State University @ Northridge 1972

Instructors Credential, California Community Colleges

Outstanding Recognition from LA Youth Motivation Task Force (74,76,77,78, 79)

Society of Hispanic Professional Engineers President's Award, 1978

Honorary Award of Colonel, Aide-de-Camp - Executive Staff State of NM,

Community Service Award from NM Secretary of State, 1983

National Hispanic Engineer of the Year, Jaime Oaxaca Award, 1984

Superior Performance Award, U.S. Department of Energy, 1990

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Fraternal Order of Eagles	None	1965 - 1966
*NCFF	V. President, CA SO Bay	1965 - 1966
Instrument Society of Amer.	None	1965 - 1967
Free and Accepted Masons	None	1969 - 1970
Personnel Mgmt Assoc. de Aztlan	None	1974 - 1979
Nat'l Council on Family Relations	None	1974 - 1979
*CAM&FC	None	1974 - 1980
Assoc. of Humanistic Psychology	None	1974 - 1980
NM Soc. of Hispanic Prof. Enigneers	President	1981 - 1983
Albuq. Hispano Chamber of Commerce	V. President	1983 - 1984
New Mexico MESA	President	1983 - 1989
D.C. Hispanic Round Table	Chairman	1990 - 1991

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

U.S. Dept. of HUD , 12/90 - Present, Special Advisor to the Secretary

U.S. Dept. of Energy 3/90 - 12/90, Director of Administration and Human Resource Management

U.S. Dept. of Energy 8/89 - 3/90 , Principal Deputy Assistant Secretary for Management and Administration

Digial Equipment Corp 1/81 - 7/89, Plant Quality Manager and Numerous other Management Positions

Jim Tarro & Assoc. 1/80 - 1/81, Management Consultant

Hughes Aircraft Co. 10/73 - 1/80, Org. Planning Manager and Numerous other Management Positions

Cal. State Northridge 6/70 - 6/73, Full-time Student

Dynasciences 11/68 - 6/70, Quality Assurance Manager

Genisco Technology 2/68 - 9/68, Quality Assurance Manager

Edcliff Instruments 5/66 - 2/68, Production Engineer

Gange Repair Service 7/65 - 5/66, Sales Manager

North American Aviation 7/62 - 7/65, Instrumentation Technician

*National Cystic Fibrosis Foundation (NCFF)
*California Association of Marriage and Family Councilors (CAM&FC)

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

U.S. Department of Energy 8/89 - 3/90, Principal Deputy Assistant
Secretary for Management and Administration

U.S. Department of Energy 3/90 - 12/90, Director for Administration
and Human Resource Management

Published writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Political affiliations and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

*I have not held any political office.

*I purchase tickets to Republican Fundraisers such as
dinners, raffles, auctions, etc.

*I hold coffees in my home for Republican candidates, display
signs, invite them as speakers to affairs, etc.

*I voted in the last general election by absentee ballot.

Political contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None at the level of $500 or more. However, I have supported numerous Republican fund raisers, i.e., barbarques, dinners, raffles, auctions, etc.

Qualifications:

State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See attached sheet

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   I am currently employed by the U.S. Department of HUD for which I am being considered for confirmation. Additionally, I have no business connections with former employers.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   I have no plans whatsoever regarding future employment with my previous employer or any other potential employer.

3. Has anybody made you a commitment to a job after you leave government?

   No one.

4. Do you expect to serve the full term for which you have been appointed?

   Yes

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

There are none.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

I would oversee automated data processing and office automation procurements and operations. My previous employer (Digital Equipment Corp) manufactures and sells equipment for these functions. However, HUD is not a DEC agency, but if a potential opportunity should by chance occur to link with DEC, I would keep myself distanced from any involvement.

3. Describe any business relationship, dealing or financial transaction (other than taxpaying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

There has been none.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

There has been none.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Regarding number 2, there are two executive decision making levels between me and the level of potential conflict. I would go on record (documented) as excluding myself from any decision making process or influencing process if a potential conflict arose.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

There is none.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

There is none.

ATTACHMENT

To perform as the Assistant Secretary for Administration at the U.S. Department of Housing and Urban Affairs requires at a minimum a set of specific skills and experiences. These might best be described in terms of five key behaviors.

1. LEADERSHIP: Portrayed by a track record of taking a program, project, or idea to successful fruition.

   -- I've demonstrated in both the private and public sectors, in vocational and avocational arenas, leadership in Total Quality Management to achieve the conversion of a management culture to do more with less with a focus on customer satisfaction.

2. TEAMPLAYER: To be collaborative, supportive, coordinated and able to deal well with ambiguity.

   -- My background as an executive and administrator has required getting business goals accomplished by working cross-organizationally with colleagues in a give and take mode performing with competence, influence skills, and being experienced as a part of the solution rather than an obstacle.

3. FACILITATOR: To make a process easier -- such as a meeting, personnel problem, or a task to be done.

   -- Here I've had successes as an organizational and management change agent. I've been gifted with a sense for people's moods and needs and use my other skills to "facilitate" next steps toward mission achievement and problem resolution.

4. COMMITMENT: A demonstrated ability to see a process through to completion -- especially with difficulty.

   -- In both private and public sector arenas I've worked long hours and weekends on programs that have been for the most part key to the survival of the organization, often faced with opposition and outcomes that would be ambiguous at best. As a leader, an executive and administrator, this characteristic of commitment is vital to seeing things to their successful conclusions.

5. COMMUNICATIONS: To provide clarity and understanding to all parties involved in a mission or process.

    -- I pride myself in my writing skills as well as my ability to present issues orally in a precise and clear manner. I'm a frequent speaker on American competitiveness, total Quality Management, organizational change, and Hispanics in education and work. I use my communication skills as the cement to bond the above four behavioral characteristics together.

In conclusion, administration and management are disciplines in which I'm well experienced. I have strong financial skills; I'm technically competent with automated systems management; I have a strong background in personnel work; I have years of experience with facilities administration; and procurement and contracts management have been at the core of business efforts in my manufacturing background. Furthermore, my previous experience at the U.S. Department of Energy as the Director of Administration and Human Resource Management and prior to that as the Principal Deputy Assistant Secretary of Management and Administration was totally focused on the Administration factors that are required for the position at HUD.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: HILL	ARTHUR	JAMES
(LAST)	(FIRST)	(OTHER)

Position to which nominated: Assistant Secretary for Housing for Hsg.-Federal Hsg. Commissioner

Date of nomination: 1/3/91

Date of birth: 04 (DAY) 07 (MONTH) 48 (YEAR)

Place of birth: Jacksonville, Florida

Marital status: Divorced

Full name of spouse:

Name and ages of children: Lolita A. Hill 21 years old

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Southern Methodist Graduate School of Banking	7/79	Graduate Diploma	8/81
University of Florida Gainesville, Florida	6/71-12/83	Masters AG - Econ.	12/83
Florida Memorial College - Miami, FLA	9/67-5/71	B.B.A.	5/71

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

1988 - Johns Hopkins/PEW Charitable Trust-Successor Generatio

1989 - Bill Colson Leadership Award - Chamber of Commerce

1987 - Who's Who Among Black America

1988 - Who's Who in the South and Southwest

1989 - Who's Who in Finance and Industry

1971 - Rockefeller Foundation Grant-Graduate Studies, Univ. Florid

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Chamber of Commerce	Executive Committee	1986 - 1989
Miami Herald Board of Economist	Board Member	1985 - 1989
Beacon Council	Exec. Comm.; Treas.	1985 - 1989
Leroy Collins Center for Public Policy	Board of Governors	1989
Miami - Dade Community College	Endowment Trust Investment Board	1987 - 1989
Partners for Youth	Advisory Board	1985 - 1989
United Way - Dade County	Exec. Comm.; Treas.	1985 - 1989

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1990 - PRESENT	President, Government National Mortgage Association, Washington, DC
1984 - 1989 :	Chairman, President & Chief Executive Ofcr Peoples National Bank of Commerce Miami, Florida
1983 - 1984 :	Vice President & Regional Manager, Corpora Lending Div., Amerifirst Savings Bank Miami, Florida
1979 - 1983 :	Vice President/Corporate Banking Division Southeast Bank, N.A., Miami, Florida
1974 - 1979 :	Assistant Vice President/Money Market Grou Head, Southeast Bank, N.A. Miami, Florida

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

State of Florida Transportation Commission - Vice Chairman

Florida Black Business Investment Board - Chairman

City of Miami Bond Refinancing Committee

Dade County School Board Alternative Financing Options Comte.

Bayfront Park Trust - City of Miami

Miami Capital Development Corporation - Board Member

Published writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

As a member of the Miami Herald Board of Economist, my views on a wide range of domestic and international economic issues were printed in the Miami Herald on a quarterly basis since 1985.

Political affiliations and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

1989 - Elector - Florida Electorial College

1988 - Delegate - Republican National Convention

1988 - National Steering Committee - George Bush for Presiden

1988 - State Chairman - Black Americans for Bush - Florida

1988 - Co-Chair Steering Committee - George Bush for President - Miami

Continuation Sheet - Page 3-A

Political Affiliations and Activities:

1988 - Member, National Executive Committee of Commerce & Industry Leaders for Bush

1987 - Republican Senatorial Inner Circle

Member - Republican National Committee

Member - Republican Party of Florida

Member - Republican Party of Dade County

Former Chairman - Southeast Banking Corporation - PAC

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

1988 - George Bush for President - $1,000

1988 - Connie Mack for U.S. Senate - $500

1986 - Bob Graham for U.S. Senate - $500

1986 - Re-Elect Paula Hawkins, U.S. Senate - $1,000

1989 - Ileana Ros-Lehtinen for Conress - $500

1986 - Bob Martinez for Governor - $1,000

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   No - Same employer

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   None

3. Has anybody made you a commitment to a job after you leave government?

   No

4. Do you expect to serve the full term for which you have been appointed?

   Yes

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Qualifications: State fully your qualifications to serve in the position to which you have been named.

My successful career as an executive in the financial services industry over the past fifteen years, coupled with serving as the current President of the Government National Mortgage Association (GNMA) provided me with the knowledge and skill required to serve as Assistant Secretary for Housing-Federal Housing Commissioner.

As Chairman, President, and Chief Executive Officer of a federally chartered national bank and President of GNMA, I've gained tremendous insight in understanding the technical and practical aspects of managing a regulated financial institution in private industry - as well as government.

My executive and leadership skills were constantly tested as my management team and I turned an undercapitalized and failing bank into a highly profitable going concern within a three-year duration. In addition, by successfully managing a government corporate entity (GNMA), responsible for protecting investors of over $400 billion in outstanding mortgage backed securities, over the past two years, I've gained tremendous insight and knowledge relative to managing in the government environment.

Therefore, by having years of practical experience and knowledge of the financial services industry as well as government, proven executive skills, and academic background, I am well qualified to serve as Assistant Secretary for Housing-Federal Housing Commissioner.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than taxpaying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Not Applicable

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

In 1986, Board Members of Peoples NationalBank of Commerce were individually fined civil monetary penalties for non-compliance with a cease and desist order entered into with the U.S. Comptroller of the Currency. As a new member of the Board of the Bank, I was fined $1,500. This matter was later resolved. The Bank was recapitalized, thereby allowing the cease and desist order to be withdrawn by the Comptroller of the Currency.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: THOMPSON (LAST) CECIL (FIRST) BRENNAN (OTHER)

Position to which nominated: MEMBER, BOARD OF DIRECTORS EXPORT IMPORT BANK OF THE UNITED STATES

Date of nomination: OCTOBER 12, 1990

Date of birth: 14 (DAY) JUNE (MONTH) 1937 (YEAR)

Place of birth: LOS ANGELES, CALIFORNIA

Marital status: MARRIED

Full name of spouse: KAREN (NMN) THOMPSON

Name and ages of children: NEVAH LORAINE 25 YRS LEAH NOEL 23 YRS

Education:

Institution	Dates attended	Degrees received	Dates of degrees
UNIV CALIF LOS ANGELES	9/61 - 6/64	PH.D CANDIDATE	NO DEGREE
" " " "	9/59 - 6/61	MA ECONOMICS	6/61
" " " "	9/55 - 6/59	BA ECONOMICS	6/59
FAIRFAX HIGH SCHOOL LOS ANGELES, CALIF.	9/52 - 6/55	DIPLOMA	6/55

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

NATIONAL SCIENCE FOUNDATION RESEARCH FELLOWSHIP, 1963; US DEPT. OF STATE/BUR INTEL & RESEARCH, COUNSULTANT SERVICE AWARD, 1971; EXECUTIVE OFFICE OF THE PRESIDENT, COUNCIL ON DRUG ABUSE PREVENTION, CERTIFICATE OF APPRECIATION; FEDERAL ENERGY ADMINISTRATION, CERTIFICATE OF APPRECIATION, 1974.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
AMERICAN ECONOMICS ASSOC	NONE	1964 - PRESENT
CYGNUS CORPORATION	PRESIDENT	5/87 - PRESENT
WOODS HOLE OCEANOG. INSTIT.	MEMBER	6/77 - PRESENT
" " " "	TRUSTEE	6/87 - PRESENT
NEW ENGLAND COLLEGE	MBR BOARD DIRECTORS	7/88 - PRESENT
MCLEAN CHORAL SOCIETY	MBR BOARD DIRECTORS	5/89 - PRESENT

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

PRESIDENT/CYGNUS CORP/WASH DC/ 5/87-PRESENT

ASST TO PRESIDENT/MIDWEST RESEARCH INSTITUTE/KANSAS CITY MO/ 2/79-5/87

ASST TO ASST SEC/INTL/US DEPT ENERGY/WASH DC/ 10/77-2/79

DEP ASST ADMINISTRATOR(ACTG)/INTL/FED ENERGY ADMIN/WASH DC/ 7/76-9/77

ASSOC ASST ADMIN/INTL/FED ENERGY ADMIN/WASH DC/ 3/76-7/76

DEP DIR/INTL/FED ENERGY ADMIN/WASH DC/ 3/75-3/76

CONSULNT & EXEC VP/NATIVE AMER ECON DEVELP CORP/WASH DC/ 11/73-3/74

ECON CONSULNT/NATL ADV COUNCIL DRUG ABUSE PREVENT/WASH DC/ 4/73-9/73

ECON CONSULNT/OFF TELECOM POL/EXEC OFF PRESIDENT/WASH DC/ 11/71-11/73

ECON CONSULNT/DEPT STATE/BUR INTEL & RES/WASH DC/ 6/71-1/72

ECON CONSULNT/OPER RESEARCH INC/SILVER SPRING, MD/ 4/71-4/72

ECONOMIST & STRAT SYST ANAL/CENTER NAVAL ANALYSES/ARL VA/ 9/68-4/71

ASSOC PROF (LEAVE) ECON/CALIF STATE UNIV/FULLERTON CALIF/9/68-9/69

ASST PROF ECON/ " " " " " 9/65-9/68

ASST PROF ECON/SUMMER ONLY/UNIV HAWAII/HONOLULU HAWAII/ 6/68-8/68

SEE ATTACHED

PAGE 2 ATTACHMENT

EMPLOYMENT RECORD (Continued)

ECON CONSULTNT/PUBLIC ADMIN ANALYST/GRAD BUS SCHOOL/UCLA/ LOS ANGELES CA/1/64-8/65

TEACHING ASSISTANT/DEPT ECONOMICS/UCLA/LOS ANGELES, CA/ 1/63-6/64

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

US DEPT AGRIC/ASCS/DEP ASST ADMINISTRATOR, MGMT/CONSULTNT/ 12/89-PRESENT

US DEPT AGRIC/COMMOD CREDIT CORP/ECON CONSULNT/1/90 - 3/90

US TREASURY/JOINT ECON COMMISSION/MGMT CONSULTNT/ 10/87-PRESENT

US DEPT ENERGY/SPEC ASST TO ASST SEC INTL AFFAIRS/ 10/77 -.2/79

US FED ENERGY ADMIN/ACTG DEP ASST ADMIN INTL AFFAIRS/ 7/76 - 9/77

" " " " /ASSOC ASST ADMIN INTL AFFAIRS/ 3/76 - 7/76

SEE ATTACHED

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

NO PUBLISHED WRITINGS

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

NONE

GOVERNMENT EXPERIENCE (continued)

US FED ENREGY ADMIN/DEP DIR INTL ENERGY RESRCE & COMMERCE/ 3/75 - 3/76

NATL ADV COUNCIL DRUG ABUSE PREVENTION/EXEC OFF PRESIDENT/ECON CONSULTNT/ 4/73 - 9/73

OFF TELEM POLICY/EXEC OFF PRESIDENT/ECON CONSULTNT/ 11/71 - 11/73

BUR INTEL & RESEARCH/US DEPT STATE/ECON CONSULTNT/ 6/71 - 1/72

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

NO POLITICAL CONTRIBUTIONS OF $500 OR MORE

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

SEE ATTACHED

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I WILL SEVER ALL CONNECTIONS WITH PRESENT EMPLOYER IF CONFIRMED

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I HAVE NO PLANS TO RESUME EMPLOYMENT WITH PRESENT EMPLOYER

3. Has anybody made you a commitment to a job after you leave government?

NO ONE HAS MADE ANY EMPLOYMENT COMMITMENT TO ME .

4. Do you expect to serve the full term for which you have been appointed?

I PLAN TO SERVE THE FULL TERM TO WHICH I HAVE BEEN APPOINTED

STATEMENT OF QUALIFICATIONS OF CECIL B. THOMPSON TO SERVE AS A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT IMPORT BANK OF THE UNITED STATES

My education as an economist, as well as my professional government and business training and experience, have provided me with the technical, policy, and commercial, knowledge and perspective I believe to be very appropriate and directly applicable to the responsibilities I will have as a member of the board of directors of the Export Import Bank of the United States.

My knowledge of the mandate and operations of the Export Import Bank began during my tenure with the Federal Energy Administration (FEA) in 1973. At that time, the national goal of energy independence placed severe and unprecedented demands on the equipment and materials required to expand US domestic energy production substantially, especially fossil fuels. Concerns about the availability of critical equipment and materials presented unique and competing objectives and operational constraints for the mandated goals and policy objectives of the Export Import Bank.

A major component of my responsibilities in FEA was to work with the Export Import Bank to resolve those apparently conflicting goals and objectives. Those efforts provided me with operational insight into the purpose and objectives as well as the primary and essential role of the Export Import Bank in supporting and enhancing US trade and economic growth.

During the period 1979 - 1987, I worked for a private US company managing a solar energy research program in Saudi Arabia. That $100 million program involved many major and small US companies engaged in solar energy research and related commercial activities. As the director of that unprecedented project, and my residency and contacts in Saudi Arabia throughout that seven-year period, I had a unique point for continuous observation and assessment of the differing roles and impacts of governments involved in international commerce.

Representatives of US industries and companies frequently called upon me to provide insights, assessments, and guidance on US commercial opportunities and related constraints in the Middle East and Gulf region in general and Saudi Arabia in particular. The differing roles and impacts of governments in supporting commerce clearly were a factor in those opportunities and constraints.

From that unique vantage point, I observed first hand, the challenges faced by US small businesses in particular, trying to enter and compete in a rapidly growing highly lucrative foreign market. That market was in need of virtually every product and service provided by US companies; yet they were faced with competitive challenges from foreign commercial entities whose governments were much more extensively involved in their commercial efforts than what typically is available to small US companies.

My personal observation of the scope and extent of direct involvement on the part of other governments, especially in the financing and other direct subsidies for their constituent companies, greatly enhanced my appreciation for the essential role of the US Export Import Bank in offsetting and balancing the relative competitive advantages enjoyed by most foreign commercial interests involved in international commerce. That role is particularly essential with respect to assisting US small businesses attempting to compete in that commerce.

Most recently, as an entrepreneur trying to establish and build a business in the US, I experienced first-hand the difficulties faced by small businesses. I encountered the challenge of trying to reconcile and balance the severe constraints of being small: very limited capital and related resources, and therefore needing help from many sources to compete and grow; yet trying to preserve the independence and flexibility so vital to the adaptation needed for long term commercial growth and viability.

In this capacity I also was able to gain additional insight into the operating policies of the Export Import Bank with respect to the criteria for loan guarantees. Under contract to the Commodity Credit Corporation (CCC) of the US Department of Agriculture, I reviewed the process, factors, analytical methodologies, and procedures involved in determining the amount of credit extended to foreign importers of US agricultural products.

The purpose of the review was to assure that appropriate risk assessment procedures were established and being followed in administering the Export Guarantee programs, and that the process and procedures result in acceptable levels of financial risk to the US government consistent with the objectives of those programs.

In developing that assessment and recommendations, I reviewed extensively and counseled with the staff of the Export Import Bank to better understand the criteria and procedures that have proved so successful for its operations. The CCC has adopted my recommendations which were greatly benefitted by the insights, knowledge, and experience of the Export Import Bank professional staff. Those efforts also greatly enhanced my understanding and knowledge of the Export Import Bank's operations, especially regarding the critical issues related to assessments of financial risk in implementing the legislative mandate and purpose of the Export Import Bank.

I believe my rather unique combination of education and professional training and experience, at senior levels in academia, government, and private industry, both international and in the US, combined with my intermittent but direct involvement with the Export Import Bank over the past 15 years, will assure my capability to serve very effectively as a member of the Board of Directors of the Export Import Bank of the United States.

ABThompson

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

I HAVE NO FINANCIAL OR OTHER ARRANGEMENTS WITH ANYONE OR ENTITY WHICH WILL BE AFFECTED BY POLICIES I EXPECT TO INFLUENCE.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

I AM NOT AWARE OF ANYTHING WHICH MIGHT INVOLVE A POTENTIAL CONFLICT.

3. Describe any business relationship, dealing or financial transaction (other than taxpaying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

I AM NOT AWARE OF ANY RELATIONSHIP OF ANY KIND THAT MIGHT IN ANY WAY CONSTITUTE OR RESULT IN A POSSIBLE CONFLICT OF INTEREST.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

I HAVE NEVER BEEN INVOLVED IN ANY LOBBYING ACTIVITY.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

WHEN CONFIRMED, I SHALL RESIGN OR OTHERWISE REMOVE MYSELF FROM
ANY ACTIVITY KNOWN, BELIEVED, OR SUBSEQUENTLY DETERMINED TO
CONSTITUTE A REAL OR APPARENT CONFLICT OF INTEREST.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

I HAVE NEVER BEEN THE SUBJECT OF A CIVIL OR CRIMINAL INVESTIGATION
TO MY KNOWLEDGE.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

I HAVE NEVER BEEN THE SUBJECT OF ANY PROFESSIONAL INVESTIGATION
OR PROCEEDING, TO MY KNOWLEDGE.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: PFAU (LAST) GEORGE (FIRST) H. JR (OTHER)

Position to which nominated: DIRECTOR SECURITIES INVESTOR PROTECTION CORP. Date of nomination: 1/7/91

Date of birth: 7 (DAY) 5 (MONTH) 24 (YEAR) Place of birth: MILWAUKEE, WISC

Marital status: MARRIED Full name of spouse: ANNE MAYHEW PFAU

Name and ages of children: MARY PFAU CLOPP (37) GEORGE H PFAU III 8
PETER WRIGHT PFAU (35)
ELIZABETH C PFAU (25)

Education:

Institution	Dates attended	Degrees received	Dates of degrees
UNIVERSITY SCHOOL OF MILWAUKEE	8/38 - 6/41	—	—
THACHER SCHOOL OJAI, CALIF	8/41 - 6/42	HIGH SCHOOL DIPLOMA	6/42
YALE UNIVERSITY	7/42 - 1/43	—	—
YALE UNIVERSITY	11/45 - 6/48	B.S.	6/48

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

WAR 1945- ITALY STAR - in American Field Service

College - Yale - Skull & Bones, Torch Honor Society.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	APPROXIMATE Dates
Town School for Boys	Trustee	1965- 1972
Thacher School	Pres Alumni, Trustee	1970 - 1978
Pathfinder Fund, Boston Ma.	Director	1972 - 1985
Planned Parenthood SF/Alameda	President, Director Honorary Director	1960 - present
San Francisco Band Club	none	1965 - 1978
Kappa Beta Phi	none	1978 - present
Systron-Donner Corp	Director	1960- 1975
Sierra Pacific Industries	Director	1968 - 1972
The Guardsmen	Director (member)	1962 - present
SF Zoological Society	Trustee	1975- 76
SF Conservatory of Music	Trustee	1970-71

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

9/48-6/49	Thacher School, 5025 Thacher Rd., Ojai Ca 93023	chemistry / physics teacher.
8/49-12/50	Hooker Turrell & Dahl, 235 Montgomery St, San Francisco Ca 94104 *	investment manager employee.
4/51-7/51	W. S Mailliard for Congress 1155 Market St, San Francisco Ca *	campaign manager.
2/50-8/51	Cartons Incorporated 942 Brockhurst St, Oakland, Ca *	Vice Pres. Director Sales manager
9/51-3/53	Fleishhacker Paper Box Co San Francisco Ca *	salesman.
4/53-4/54	Vogel Luminescence Corp - Harrison St, San Francisco *	Sales manager paint mk.
5/54-5/55	A.G. Becker & Co 465 California St San Francisco Ca 94104 *	corp. finance assoc. stock broker trainee
6/55-8/57	Carl W. Stern Co Inc 465 California St San Francisco Ca 94104 *	vice pres - director secretary.
9/57-9/78	Merrill Lynch (formerly White Weld & Co) 101 California St, San Francisco Ca 94111	former partner W.W. VP - stock broker.
9/78-present	PAINE WEBBER 100 California St, San Francisco Ca 94111	Sr. Vice Pres. stock broker.

* does not exist today

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

NONE

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

NONE

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

BUSH FOR PRESIDENT – NATIONAL FINANCE COMM. MEMBER

CO-CHAIR - SAN FRANCISCO – BUSH QUAYLE '88

FOUNDER - EXEC COMM. – LINCOLN CLUB OF NORTHERN CALIF. *

FINANCE CHAIR - SAN FRANCISCO REPUBLICAN COUNTY CENTRAL COMM.

CHAIR - TREAS – CITIZENS FOR A BETTER SAN FRANCISCO. *

* Broad based pack.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

I have paid my annual dues of $1000 in the Spring each year to the Lincoln Club of Northern California of which I am on the Executive Comm - this is a broad based pack. In addition in 1986 and 1985 I contributed to Fund for Americas Future In 1985 in contributed $640 to the Abe Lincoln Fund, a state pack, All other contributions have been under $500. I believe I gave $1000 to George Bush for President but can't find records as to the exact year '87 or '88.

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See attached sheet.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I will continue my employment full time at Paine Webber.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

Does not apply see #1

3. Has anybody made you a commitment to a job after you leave government?

Does not apply see #1

4. Do you expect to serve the full term for which you have been appointed?

yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

I will continue my full time employment at Paine Webber and be paid by them. I have agreed to abstain from voting on any matter which effect Paine Webber.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

See #1 above

3. Describe any business relationship, dealing or financial transaction (other than taxpaying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I will abstain from voting on matters which may
effect Paine Webber

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

Some time between 1968-72 when I was manager of White
Welds' San Francisco Office (@ 1 Bush St, SF 94104) I was
reprimanded by my chairman. One of my institutional sales
persons was charged for allowing a "free riding" situation by
the NASD. I was charged with inadequate supervision. I was
represented in this matter by Steve Hammerman who is an
executive of Merrill Lynch in New York City. Merrill Lynch
took over White Weld in 1978.

QUALIFICATIONS (page 4)

I believe I am qualified to be a Board Member of SIPC because of my 35 plus years of experience in the investment banking and brokerage industry. During my career, I have worked for several small regional brokers and several very large international investment banks and stockbrokerages. I have served with distinction in many capacities. As a partner of White Weld, I managed their San Francisco office for 7 years. In additon, I was a veteran member of their Corporate Finance and Underwriting Department.

I presently serve in San Francisco at Paine Webber as a Senior Vice President-Investments. I consider myself a seasoned and conservative advisor and broker to my many clients throughout California and the United States. I understand thoroughly the need for SIPC and how it must serve both investors and brokers. My background and experience will be useful on the Board of SIPC.

The Securities Investor Protection Corp. is supposed to protect investors the way federal deposit insurance protects bank depositors. And that is what has investors nervous.

How solid is SIPC?

By Michael Fritz

WHEN PENNY STOCK hustler Blinder, Robinson & Co. collapsed last July, the brokerage firm's 227,000 customers were left holding their breaths. Would the Securities Investor Protection Corp. (known as "sipick") come to their rescue?

The 20-year-old SIPC fund is supposed to make sure that investors get back securities and cash held by their brokers if they fail. The amount covered is $500,000, with a cash maximum of $100,000 *(see box, p. 115)*.

In terms of number of customers, Blinder, Robinson was the largest brokerage firm in history to go into SIPC liquidation, and there was some fear that the failure would undermine SIPC. After all, SIPC has only $570 million in its coffers, plus a $500 million line of credit with 14 major banks—a cushion of barely $1 billion. (It also has a $1 billion standby line of credit with the Treasury, but this can only be activated by the Securities & Exchange Commission and SIPC cannot count on the money.)

In Blinder's case, that $1 billion cushion amounted to less than $5,000 per customer. Yet each was nominally covered for up to $500,000. Fortunately, Blinder's customer records were in better shape than the companies it promoted. Customers have been getting back the cash trapped in their accounts, albeit with delays averaging three months after a claim is filed. (Interest on cash is not covered.)

And most customers' securities certificates are safely in place with transfer agents. In all, it's estimated that SIPC is out only $2 million on the Blind 'em and Rob 'em liquidation so far. And most of that will likely be recovered.

Does this mean that no one should worry about SIPC? It does not.

UNITED STATES
500000
500000
$
FIVE HUNDRED THOUSAND DOLL

In October SIPC released a good-news-bad-news study by the accounting firm Deloitte & Touche. The positive conclusion: SIPC's current insurance reserves and bank credit line could cover as large and unlikely an event as the failure of $64 billion (assets) Merrill Lynch.

But the bad news was that the SIPC fund isn't big enough to deal with a major panic. A catastrophe of such magnitude as to take out Merrill Lynch could cost a total of $1.24 billion and wipe out the entire SIPC fund. True, about half the outlay would likely be recovered during the course of the liquidation. Even so, there wouldn't be enough left to cover another big disaster—and a crisis bad enough to force one big firm out of business would surely hurt the system as a whole.

Deloitte & Touche also cautioned that while the SIPC fund stands at a historic high, firms are much bigger than they used to be. So past experiences on liquidation costs shouldn't be used as a guide for the future. In 1973, for example, the top ten brokers held 27% of industry capital. Today the ten largest firms control over 60% of the industry's $39 billion capital base.

And not only are the firms bigger, they have been engaged in riskier businesses that have nothing to do with brokerage. E.F. Hutton, Drexel Burnham Lambert and Thomson McKinnon all went down the tubes in part because of losses incurred in activities like index arbitrage, underwriting and bridge-loan financing.

None of these failures required SIPC to step in because the firms had either sold their brokerage operations before going under or merged with a healthy competitor. But what would happen if there were no buyers?

Here's something else to worry about: Brokerage firm failures would have been dramatically worse last year if a number of parent holding companies had not rescued their ailing subsidiaries. During 1990 American Express, General Electric, Prudential Insurance and Credit Suisse injected a total of around $3 billion into their brokerage subsidiaries. But, warns Perrin Long, a securities analyst with Lipper Analytical Services: "At some point there may come a day when the parent throws up its hands and refuses to put up more money."

While generally comfortable with SIPC's resources, Securities & Exchange Commission Chairman Richard Breeden told the Senate subcommittee on securities in January that the Commission would like to see the fund get bigger. No one wants to ask the Treasury to bail out Wall Street. "The Administration has made manifest its concern about federal guarantees," says Michael Prell, director of research at the Federal Reserve and a member of SIPC's board of directors. "Its pretty clear that it is not fashionable to be thinking about turning to the public trough."

So SIPC's directors are under pressure to build the fund's reserves. The question is: how? Currently, Wall Street brokerage houses pay 0.19% of their annual revenues as premiums to SIPC. That raised an estimated $60 million last year. The assessment ratio could be raised, but some giant firms, including Merrill Lynch and Shearson Lehman Brothers, are concerned about the assessments they now pay.

A securities industry working group headed up by officials from Merrill Lynch and Goldman, Sachs has been holding informal talks with top SIPC officials over two less costly options to build SIPC's ability to cope with disasters.

One scheme calls for increasing SIPC's $500 million credit line. The other approach would require brokers to purchase Treasury bonds and deposit them with SIPC, in lieu of some of their annual payments to the fund. In an emergency, SIPC could cash in bonds. When SIPC's reserves grow to $1 billion, perhaps in 1995, the agency would begin returning the bonds. SIPC is expected to respond to the proposals when its board meets Feb. 27.

Where does all this leave investors? Pretty much in the same position as bank depositors. Securities with a value of up to $500,000 (including $100,000 in cash) are safe, assuming there is no widespread panic. For most people, there is no need to take physical possession of certificates.

What if the value of securities and cash in your account is above SIPC's $500,000 limit? Your broker probably carries supplemental coverage. Many large firms now carry policies that protect customers for $2 million to $9.5 million in losses not covered by SIPC. Note, however, that these policies do not include cash coverage, so it's still a good idea to keep your brokerage account cash balances under $100,000.

And remember, your supplemental insurance is only as good as the insurers offering it.

If the value of your securities exceeds the limits of both SIPC and private coverage, you might consider putting some securities in a custodial account in a bank.

An important final note: If you have been getting around the SIPC coverage limits by holding multiple brokerage accounts, pay close attention to what the FDIC does. If the FDIC ends multiple account coverage—by, for example, insuring each Social Security number, instead of each account, for $100,000 in deposits—then SIPC might well follow. The Treasury Department is supposed to submit its FDIC coverage proposals this month. ■

How SIPC works

BESIDES OFFERING insurance, the Securities Investor Protection Corp. monitors the financial health of brokerage firms. The nonprofit, private corporation reviews reports from the Securities & Exchange Commission, the National Association of Securities Dealers and the stock exchanges, which must notify the agency whenever a firm approaches financial difficulty. Once SIPC determines customer accounts are at risk, it then obtains a federal court order to shut down the company and liquidate it.

SIPC doesn't guarantee your securities' value, just that you'll get them back.

If the brokerage has a substantial number of accounts, SIPC usually tries to arrange a "bulk transfer," in which all the failed firm's accounts are transferred to another firm. In that case, customers can often gain access to their accounts within 30 days. But if there are no takers, or the brokers' books are a mess, the accounts can remain frozen for as long as six months while SIPC mails out claim notices and processes each account.

Courts usually require customers to submit claims within 60 days. Missing this deadline can cause you to partially forfeit your rights to securities held in the broker's street name.

"This isn't the kind of thing that should be put aside," says Theodore Focht, SIPC's president.

If your account exceeds the SIPC coverage limits ($500,000 in securities, including $100,000 cash) when the brokerage is taken over, you may be able to file a supplemental claim with the brokerage firm. Many major brokerage houses carry private insurance that protects customers for as much as $9.5 million in additional losses of securities only.

Failing that protection, you'll have to stand in line with the rest of the brokerage firm's general creditors to recover any securities and cash over the SIPC limit. And that can take anywhere up to five years.–M.F. ■